Revlon - 2007

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A. Case Abstract

Revlon (www.revlon.com) is a comprehensive business policy and strategic management case that includes the company's fiscal year-end December 2006 financial statements, competitor information and more. The case time setting is the year 2007. Sufficient internal and external data are provided to enable students to evaluate current strategies and recommend a three-year strategic plan for the company. Headquartered in New York City, Revlon's common stock is publicly traded on the New York Stock Exchange under the ticker symbol REV.
Revlon produces a diverse line of, perfumes, fragrances, beauty tools and other skin care products. Revlon's products are sold through various distribution channels, including specialty stores, department stores, pharmacies, grocery stores and the and Web. Revlon operates in the Americas, Europe, Middle East, Asia, and Africa. The company employees 6,000 full-time employees and is led by CEO David Kennedy whose base pay was over $770,000 in 2007. The firm's major competitors are conglomerate giant Procter & Gamble, L'Oreal and Estee Lauder.

B. Vision Statement (actual)

To provide glamour, excitement and innovation through quality products at affordable prices.

C. Mission Statement (actual)

Our mission is to make men and women (1) more attractive and feel better about themselves on a daily basis by providing the best makeup, fragrances, and skin care products available (2). Our top priority is to exceed our customers' expectations on each and every purchase they make (6). We achieve this by using the latest technology (4) and research to develop and offer products tailored to individuals and cultures around the world (3). At Revlon we strive to keep our costs down, so we can continue to provide products to customers at the lowest prices possible (5). Further, we hire only the best chemists, managers, and researchers (9) to ensure the best products at a fair price (7). Finally, at Revlon we never use animal testing unless required by law (8).

Customer

Products or services

3. Markets
4. Technology
5. Concern for survival, profitability, growth

6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees

D. External Audit

Opportunities

Sales for Estee Lauder in department stores have fallen from 46 percent in 2002 to 37 percent in 2006.
Markets in Central and Eastern Europe, China and India are growing in population. Those economies bode well for consumption of personal care products.
The number of female teenagers (ages 15-19) is growing. ln the United States this number was estimated at 10.3 million in 2005, a 5.1 percent increase from 9.8 million is 2000.
The demand for "green" or "natural" products, which are perceived to be better for the environment, is increasing.
S&P's projected disposable income growth is 6.2 percent in 2006 and 5.4 percent in 2007. This should support ongoing modest gains in sales of branded packaged personal products.
Men are using more personal products than they historically have used.
Weak US dollar makes products more affordable to customers in other nations.

Threats

Only about 15 percent of new products in any given year reach their business objectives; the rest are withdrawn from the market.
The company is subject to regulation by the Federal Trade Commission and the Food and Drug Administration in the U.S., as well as various other federal, state, local and foreign regulatory authorities, including European Commission in the European Union.
Terrorist attacks, ants of war or military actions may adversely affect the markets in which the company operates and the company's operations and profitability.
Competitors could increase their spending on advertising and media, increase their new product development spending or take other steps in response to the company's plan.
Mr. Perelman owns approximately 60 percent of Revlon and controls approximately 77 percent of the combined voting power of Revlon lnc. common stock.
Fidelity Management and Research Corporation owns 20 percent of Revlon.

Estee Lauder sells products in over 130 countries.
Many new start-up companies with specialty products are created each year.
Concerns about the use of aerosols, fluorocarbons and other chemicals in the production of cosmetic products.
Gray and black market sales over the Internet.

CPM - Competitive Profile Matrix

* Estimates for Procter & Gamble focused on similar product lines they share with Revlon not the company as a whole.

		Estee Lauder		Revlon		Procter & Gamble	
Critical Success Factors	Weight	Rating	Weighted Score	Rating	Weighted Score	Rating	Weighted Score
Market Share	0.20	4	0.80	4	0.80	3	0.60
Price	0.10	2	0.20	3	0.30	4	0.40
Financial Position	0.20	3	0.60	1	0.20	4	0.80
Product Quality	0.15	4	0.60	2	0.30	2	0.30
Product Lines	0.10	4	0.40	3	0.30	4	0.40
Consumer Loyalty	0.20	4	0.80	3	0.60	2	0.40
Employees	0.05	4	0.20	4	0.20	4	0.20
Total	1.00	3.60		2.70		3.10	

External Factor Evaluation (EFE) Matrix

Key External Factors	Weight	Rating	Weighted Score
Opportunities			
1. Sales for Estee Lauder in department stores have fallen from 46 percent in 2002 to 37 percent in 2006.	0.08	1	0 08
2. Markets in Central and Eastern Europe, China and India are growing in population and economy and bode well for consumption of personal care products.	0.08	2	0.16
3. The number of female teenagers	0.04	2	0.08

(ages 15-19) is growing. In the United States this number was estimated at 10.3 million in 2005, a 5.1 percent increase from 9.8 million is 2000.			
4 The demand for “green” or “natural” products, which are perceived to be better for the environment, is increasing.	0.04	2	0.08
5. S&P's projected disposable income growth is 6.2 percent in 2006 and 5.4 percent in 2007. This should support ongoing modest gains in sales of branded packaged personal products.	0.04	2	0.08
6. Men are using more personal products than they traditionally used.	0.05	2	0.10
7. Weak US Dollar makes products more affordable to customers in other nations.	0.05	2	0.10
Threats			
1. Only about 15 percent of new products in any given year reach their business objectives; the rest are withdrawn from the market.	0.08	2	0.16
2. The company is subject to regulation by the Federal Trade Commission and the Food and Drug Administration in the U.S., as well as various other federal, state, local and foreign regulatory authorities, including European Commission in the European Union.	0.04	2	0.08
3. Terrorist attacks, ants of war or military actions may adversely affect the markets in which the company operates and the company's operations and profitability.	0.02	1	0.02
4. Competitors could increase their spending on advertising and media,	0.13	2	0.26

increase their new product development spending or take other steps in response to the company's plan.			
5. Mr. Perelman owns approximately 60 percent of Revlon and controls approximately 77 percent of the combined voting power of Revlon Inc. common stock.	0.02	1	0.02
6. Fidelity Management and Research Corporation owns 20 percent of Revlon.	0.03	1	0.03
7. Estee Lauder sells products in over countries.	0.10	3	0.30
8. Many new startup companies with specialty redacts are created each year.	0.05	2	0.10
9. Concerns about the use of aerosols, fluorocarbons and other chemicals in the production of cosmetic produces.	0.05	3	0.15
10. Gray and black market sales over the Internet.	0.10	2	0.20
TOTAL	1.00		2.00

E. Internal Audit

Strengths

Wal-Mart is the largest customer with 24 percent of the company's 2005 worldwide net sales.
Products are sold in more than 100 countries across 6 continents.
Total revenue in year-end 2006 was over $1.2 billion.
Launched a completely new line of cosmetics under the new Vital Radiance brand, which focuses on women over 50 years of age.
Revlon has excellent resources in the U.S. and in Europe, especially in skin care.
Market share in color cosmetics, hair color and beauty tools grew in the United States.
Completely restaged Almay and introduced it back on the market again in 2006.
The Colorsilk brand was the fastest growing hair color brand in the mass-market distribution channel in 2005.

Weaknesses

As of 2005, 64 percent of net sales were in the United States and Canada.
Revlon reported a loss of $251 million year-end 2006.
The company depends on its Oxford, North Carolina facility for production of a substantial portion of its products.
In the US, Revlon's products are only distributed in large mass volume retailers and chain drug stores.
Tendency to force products into market that have not been tested adequately.
The company may be unable to increase its sales through the company': primary distribution channels.
Revlon has liabilities of over $28 each of the last three years.
Revlon depends on a limited number of customers for a large portion of its net sales.
Revlon reports $186M of goodwill on their year-end 2006 balance sheet.

Financial Ratio Analysis (December 2006)

Growth Rates %	Revlon	Industry	SP-500
Sales (Qtr vs. year ago Qtr)	1 l .00	8.70	15.10
Net Income (YTD vs. YTD)	NA	22.30	l 8.40
Net Income (Qtr vs. year ago qtr)	89.70	18.30	25.70
Sales (5-Year Annual Avg.)	0.83	10.98	12.22
Net Income (5-Year Annual Avg.)	NA	13.47	21.58
Dividends (5-Year Annual Avg.)	NA	12.62	9.49
Price Ratios			
Current p/e Ratio	NA	22.3	22. 1
P/E Ratio 5-Year High	NA	3.0	24.2
P/E Ratio a-Year Low	NA	0.7	5.0
Price/sales Ratio	0.43	2.65	2.50
Price/Book Value	NA	7.16	4.10
Price/cash Flow Ratio	1 1.70	16.70	13.60
Profit Margins			
Gross Margin	62.8	50.3	36.2
Pre-Tax Margin	-3.8	16.8	18.3
Net Profit Margin	-4.5	12.2	12.8
5Yr Gross Mar in (5-Year Avg.)	60.1	51.3	34.7
5Yr Pre-fax Margin (5-Year Avg.)	-13.7	16.2	16.2
5 Yr Net Profit Margins (5-Year Avg.)	-14.4	1 1.1	1 1.2

Financial Condition			
Debts/equity Ratio	NA	0.90	1 .32
Current Ratio	0.9	0.9	l .2
Quick Ratio	0.5	0.7	1 .0
Interest Coverage	0.8	15.7	37.2
Leverage Ratio	-0.8	2.9	4.0
Book Value/share	-2.23	16.59	20.07
Investment Returns %			
Return On Equity	NA	30.9	28.5
Return On Assets	-6.9	9.3	8.4
Return On Capital	-15.2	12.8	1 1.1
Return On Equity (5-Year Aug.)	NA	49.6	20.9
Return On Assets (5-Year Avg.)	-19.0	l 0.5	7.0
Return On Capital (5-Year Avg.)	-35.1	13.7	9.4
Management Efficiency			
Income/Employee	-39,266	63,501	111,437
Revenue/Employee	232,733	494,739	947,000
Receivable Turnover	8.1	10.3	14.5
Invents Turnover	2.6	5.0	9.2
Asset Turnover	1.5	0.8	0.8

Adapted from www.moneycentral.msn.com

Date	Avg. P/E	Price/Sales	Price/Book	Net Profit Margin (%)
12/06	-3.40	0.39	-0.44	-18.9
12/05	-13.30	0.87	-1 .06	-6.3
12/04	-5.80	0.54	-0.85	-11.0
12/03	-1.20	0.1 1	-0.09	-1 1.8
12/02	-0.80	0.15	-0.10	-25.6

Adapted from www.moneycentral.msn.com

Date	Book Value/ Share	Debts/Equity	ROE %	ROA %	Interest Coverage
12 06	- $2.92	-1.23	20.4	-27.0	-0.3
12/05	-$2.92	-1.30	7.6	-8.0	0.5
12/04	-$2.71	-1.33	14.0	-14.2	0.6
12/03	- $24.16	-1.10	8.9	-17.2	0.1
12 02	- $31.65	-1.08	17.5	-30.7	-0.7

Adapted from www.moneycentral.msn.com

Net Worth Analysis (December 2006 in millions)

1. Stockholders' Equity + Goodwill = ($1,229)+ 186	($1,043)
2. Net income x 5 = ($250) x 5 =	($1,250)
3. Share price = $1.15/EPS (0.13) =NA x Net Income ($250)=	NA
4. Number of Shares Outstanding x Share Price = 510 x $1 .15=	$ 586
Method Average	$586

Internal Factor Evaluation (IFE) Matrix

Key Internal Factors	Weight	Rating	Weighted Score
Strengths			
1. Wal-Mart is the largest customer with 24 percent of the company's 2005 worldwide net sales.	0.07	4	0.28
2. Products are sold in more than l00 countries across 6 continents.	0.07	4	0.28
3. Total revenue in ear end 2006 was over $1 .2 billion.	0.10	4	0.40
4. Launched a completely new line of cosmetics under the new Vital Radiance brand, which focuses on women over 50 years of age.	0.05	3	0.15
5. Revlon has excellent resources in the U.S. and in Europe, especially in skin care.	0.05	4	0.20
6. Market share in color cosmetics, hair color and beauty tools grew in the United States.	0.05	3	0.15
7. Completely restaged Almay and introduced it back on the market again in 2006.	0.05	3	0. 1 5
8. The Colorsilk brand was the fastest growing hair color brand in the mass-market distribution channel in 2005.	0.05	3	0.15
Weaknesses			
1. As of 2005, 64 percent of net sales were in the United States and Canada.	0.07	1	0.07
2. Revlon reported a loss of $251 million year end 2006.	0.12	1	0.12
3. The company depends on its Oxford, North	0.05	2	0.10

Carolina facility for production of a substantial portion of its products.			
4. In the United States, Revlon's products are only distributed in large mass volume retailers and chain drug stores.	0.06	1	0.06
5. Tendency to force products into market that have not been tested adequately.	0.02	1	0.02
6. The company may be unable to increase its sales through the company's primary distribution channels.	0.02	1	0.02
7. Revlon has liabilities of over $28 each of the last three years.	0.10	1	0.10
8. Revlon depends on a limited number of customers for a large portion of its net sales.	0.05	1	0.05
9. Revlon report $1 I'm of goodwill on their year-end2006 balance sheet.	0.02	1	0.02
TOTAL	1.00		2.32

F. SWOT Strategies

SO Strategies

l. Expand product offerings in Eastern Europe, China, and India (S2, S3, S5, 02, 07).

2. Create a product to target men (S1 , S2, S3, 06).

WO Strategies

l. Open a new production facility in Eastern Europe (S2, S3, 03, 07).

ST Strategies

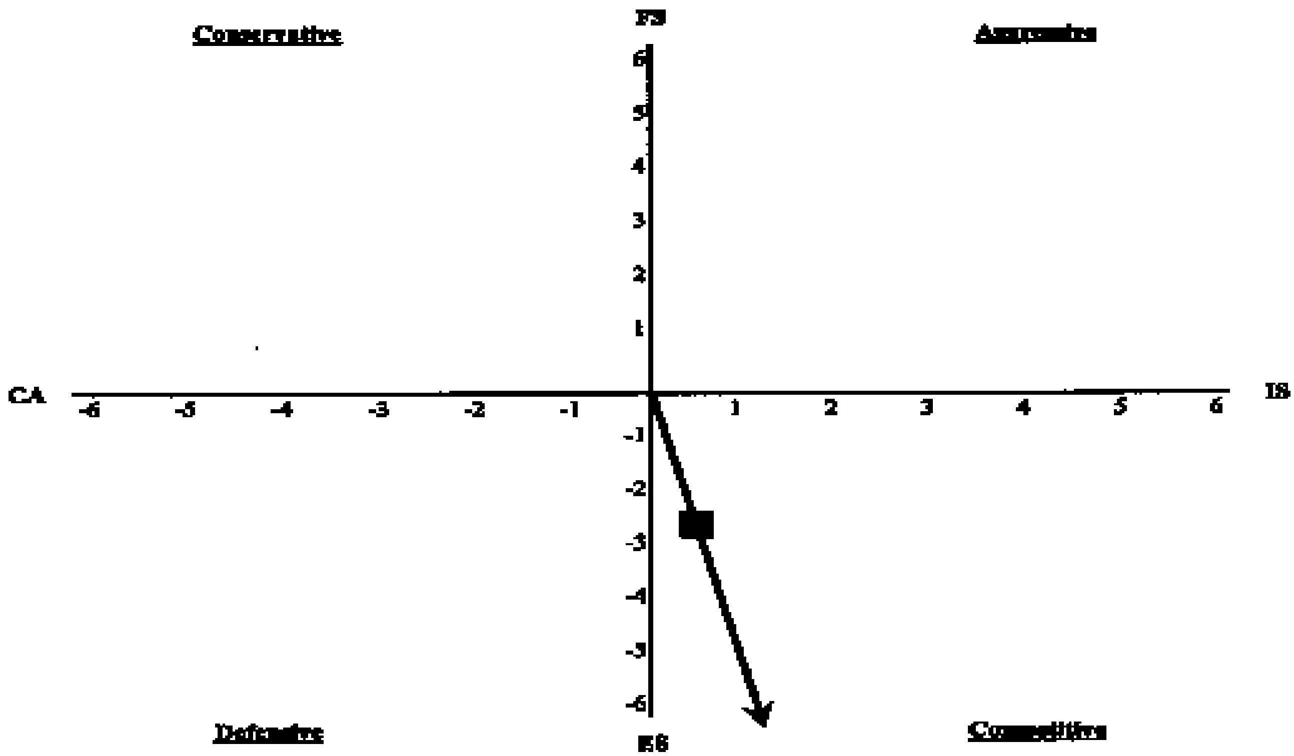
1. Increase red expenditures to ensure a higher percentage of products reach their business objectives (S3, T1).

2. Purchase a specialty startup company (S3, T8).

WT Strategies

l. Increase spending on advertising and actively seek new distribution channels (W6, T4).

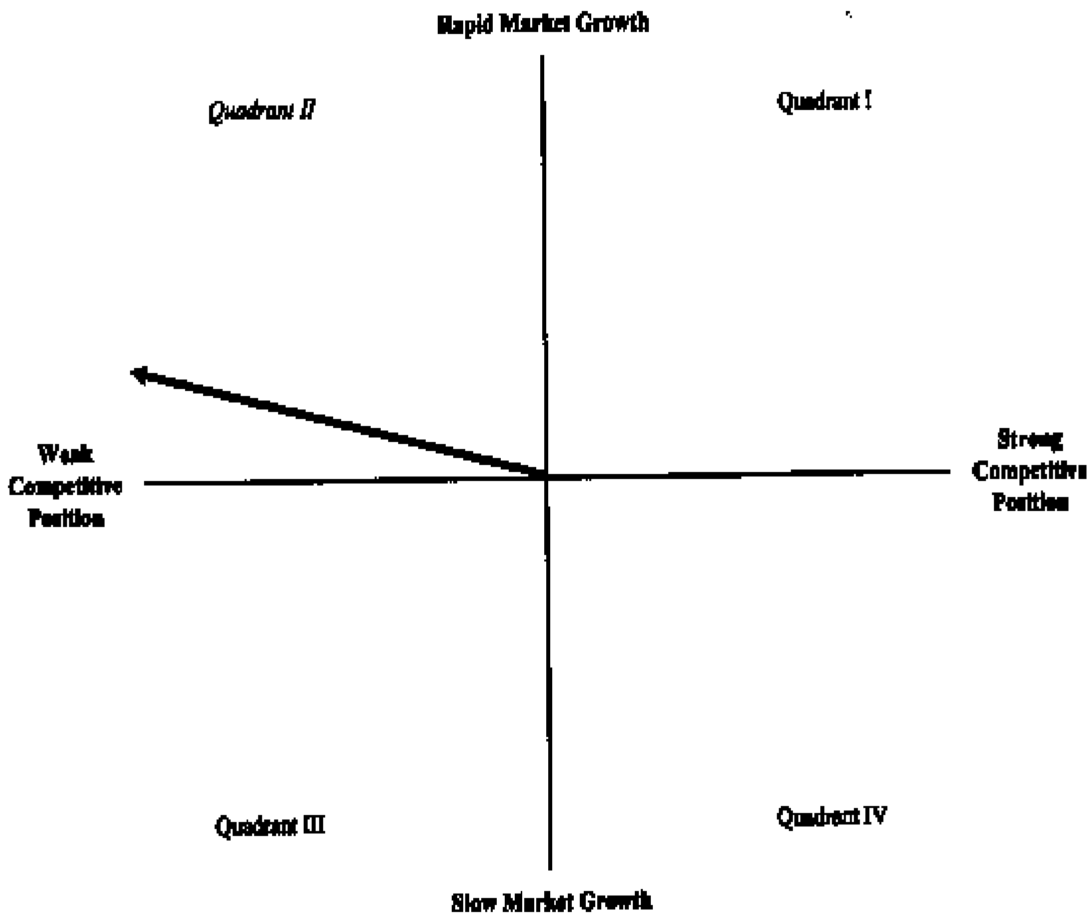
G. SPACE Matrix



Financial Strength (FS)		Environmental Stability (ES)	
Return on Assets (ROA)	1	Rate of Inflation	-3
Leverage	1	Technological Changes	-4
Net Income	1	Price Elasticity of Demand	-3
Income/Employee	1	Competitive Pressure	-6
Inventory Turnover	2	Barriers to Entry Into Market	-4
Financial Strength (FS) Average	1.2	Environmental Stability (ES) Average	-4.0
Competitive Advantage (CA)		Industry Strength (IS)	
Market Share	-3	Growth Potential	5
Product Quality	-3	Financial Stability	3
Customer Loyalty	-3	Ease of Entry into Market	4
Technological know-how	-5	Resource Utilization	4
Control over Suppliers and Distributors	-5	Profit Potential	6
Competitive Advantage (CA) Average	-3.8	Industry Strength (IS) Average	4.4

x-axis: 4.4 I -3.8 = 0.6
y-axis: 1.2 I -4.0 = -2.8
coordinate: (0.6, -2.8)

H. Grand Strategy Matrix



I. The Internal-External (IE) Matrix

The IFE Total Weighted Score

	Strong 3.0 to 4.0	Average 2.0 to 2.99	Average 2.0 to 2.99
High 3.0 to 3.99	I	II	III
Medium 2.0 to 2.99	IV	V Revlon	VI
Low 1.0 to 1.99	VII	VIII	IX

Hold and Maintain

Market Share	% Revenue
North America	67
Europe	24
Asia	9

J. QSPM

Strategic Alternatives					
Key Internal Factors	Weight	Increase R&D		Increase Advertising Budget	
Strengths		AS	TAS	AS	TAS
1. Wal-Mart is the largest customer with 24 percent of the company's 2005 worldwide net sales.	0.07	—	—	—	—

2. Products are sold in more than 100 countries across 6 continents.	0.07	---	---	---	---
3. Total revenue in year end 2006 was over $1.2 billion.	0.10	4	0.40	3	0.30
4. Launched a completely new line of cosmetics under the new Vital Radiance brand, which focuses on women over 50 years of age.	0.05	2	0.10	4	0.20
5. Revlon has excellent resources in the U.S. and in Europe, especially in skin care.	0.05	---	---	---	---
6. Market share in color cosmetics, hair color and beauty tools grew in the United States.	0.05	2	0.10	4	0.20
7. Completely restaged Almay and introduced it back on the market again in 2006.	0.05	1	0.05	4	0.20
8. The Colorsilk brand was the fastest growing hair color brand in the mass-market distribution channel in 2005.	0.05	1	0.05	4	0.20
Weaknesses					
1. As of 2005, 64 percent of net sales were in the United States and Canada.	0.07	---	---	---	---
2. Revlon reported a loss of $251 million year end 2006.	0.12	---	---	---	---
3. The company depends on its Oxford, North Carolina facility for production of a substantial portion of its products.	0.05	---	---	---	---
4. In the United States, Revlon's products are only distributed in large mass volume retailers and chain drug stores.	0.06	4	0.24	3	0.24
5. Tendency to force products into market that have not been tested adequately.	0.02	4	0.08	2	0.04
6. The company may be unable to increase its sales through the company's primary distribution channels.	0.02	3	0.06	4	0.08
7. Revlon has liabilities of over $2B each of the last three years.	0.10	---	---	---	---
8. Revlon depends on a limited number of customers for a large portion of its net sales.	0.05	1	0.05	4	0.20
9. Revlon reports $186M of goodwill on their year-end 2006 balance sheet.	0.02	---	---	---	---
SUBTOTAL	1.00		1.13		1.66

Key External Factors	Weight	Increase R&D		Increase Advertising Budget	
Opportunities		AS	TAS	AS	TAS
1. Sales for Estee Lauder in department stores have fallen from 46 percent in 2002 to 37 percent in 2006.	0.08	1	0.08	2	0.16
2. Markets in Central and Eastern Europe, China and India are growing in population and economy and bode well for consumption of personal care products.	0.08	---	---	---	---
3. The number of female teenagers (ages 15-19) is growing. In the United States this number was estimated at 10.3 million in 2005, a 5.1 percent increase from 9.8 million in 2000.	0.04	---	---	---	---

4. The demand for "green" or "natural" products, which are perceived to be better for the environment, is increasing.	0.04	4	0.16	2	0.08
5. S&P's projected disposable income growth is 6.2 percent in 2006 and 5.4 percent in 2007. This should support ongoing modest gains in sales of branded packaged personal products.	0.04	—	—	—	—
6. Men are using more personal products than they traditionally used.	0.05	3	0.15	4	0.20
7. Weak US Dollar makes products more affordable to customers in other nations.	0.05	—	—	—	—
Threats					
1. Only about 15 percent of new products in any given year reach their business objectives; the rest are withdrawn from the market.	0.08	4	0.32	1	0.08
2. The company is subject to regulation by the Federal Trade Commission and the Food and Drug Administration in the U.S., as well as various other federal, state, local and foreign regulatory authorities, including European Commission in the European Union.	0.04	2	0.08	1	0.04
3. Terrorist attacks, acts of war or military actions may adversely affect the markets in which the company operates and the company's operations and profitability.	0.02	—	—	—	—
4. Competitors could increase their spending on advertising and media, increase their new product development spending or take other steps in response to the company's plan.	0.13	2	0/26	4	0.52
5. Mr. Perelman owns approximately 60 percent of Revlon and controls approximately 77 percent of the combined voting power of Revlon Inc. common stock.	0.02	—	—	—	—
6. Fidelity Management and Research Corporation owns 20 percent of Revlon.	0.03	—	—	—	—
7. Estee Lauder sells products in over 130 countries.	0.10	—	—	—	—
8. Many new start up companies with specialty products are created each year.	0.05	—	—	—	—
9. Concerns about the use of aerosols, fluorocarbons and other chemicals in the production of cosmetic products.	0.05	3	0.15	1	0.05
10. Gray and black market sales over the Internet.	0.10	1	0.10	3	0.30
SUBTOTAL			1.04		1.43
SUM TOTAL ATTRACTIVENESS SCORE			2.17		3.09

K. Recommendations

The QSPM suggested to increase the advertising budget to help compete against rival firms. But Revlon must also improve its R&D. Revlon's poor financial condition and stock price of less than $2.00 restricts what the firm can do. But the following two strategies are recommended.

1. Increase R & D by hiring 10 new scientists at $100k per year. Miscellaneous costs associated with their work are estimated to cost $50M per year.
2. Increase advertising budget to compete against major competitors, start up firms, and black market sales over the Internet. Total expected cost of $100M per year.

L. EPS/EBIT Analysis

Amount Needed: $151M
Stock Price: $1.15
Tax Rate: 35%
Interest Rate: 7%
Shares Outstanding: 510M

	Common Stock Financing			Debt Financing		
	Recession	Normal	Boom	Recession	Normal	Boom
EBIT	(100,000,000)	50,000,000	200,000,000	(100,000,000)	50,000,000	200,000,000
Interest	0	0	0	10,570,000	10,570,000	10,570,000
EBT	(100,000,000)	50,000,000	200,000,000	(110,570,000)	39,430,000	189,430,000
Taxes	(35,000,000)	17,500,000	70,000,000	(38,699,500)	13,800,500	66,300,500
EAT	(65,000,000)	32,500,000	130,000,000	(71,870,500)	25,629,500	123,129,500
# Shares	641,304,348	641,304,348	641,304,348	510,000,000	510,000,000	510,000,000
EPS	(0.10)	0.05	0.20	(0.14)	0.05	0.24

	70 Percent Stock - 30 Percent Debt			70 Percent Debt - 30 Percent Stock		
	Recession	Normal	Boom	Recession	Normal	Boom
EBIT	(100,000,000)	50,000,000	200,000,000	(100,000,000)	50,000,000	200,000,000
Interest	3,171,000	3,171,000	3,171,000	7,399,000	7,399,000	7,399,000
EBT	(103,171,000)	46,829,000	196,829,000	(107,399,000)	42,601,000	192,601,000
Taxes	(36,109,850)	16,390,150	68,890,150	(37,589,650)	14,910,350	67,410,350
EAT	(67,061,150)	30,438,850	127,938,850	(69,809,350)	27,690,650	125,190,650
# Shares	601,913,043	601,913,043	601,913,043	549,391,304	549,391,304	549,391,304
EPS	(0.11)	0.05	0.21	(0.13)	0.05	0.23

M. Epilogue

For the third quarter 2007 compared to the same period in 2006, Revlon's sales increased to $339.7 million from $305.9 million. Operating income increased to $20.7 million, compared to an operating loss of $57.2 million. Net loss was $10.4 million, or $0.02 per diluted share, compared to a net loss of $100.5 million, or $0.24 per diluted share.
Revlon's product Vital Radiance, executive severance and restructuring expenses negatively affected comparability of the 2007 over 2006 period. In the third quarter 2006, these items collectively reduced net sales by approximately $15 million, reduced operating profitability by approximately $72 million.

In the United States, Revlon's net sales in the third quarter of 2007 increased 19.7% to $190.9 million, compared with net sales of $159.5 million in the third quarter of 2006. The increase in net sales was driven by an improvement in sales returns (primarily due to higher accrued returns in the third quarter 2006 related to a national promotional program) and higher shipments in beauty care products (primarily from women's hair color), partially offset by lower shipments of Revlon and Almay color cosmetics.
Outside the United States, Revlon's net sales in the third quarter of 2007 increased l
.6%
to $148.8 million, compared to net sales of $146.4 million in the third quarter of 2006. Excluding the impact of foreign currency fluctuations, net sales in the third quarter of 2007 declined 3.4% compared to the same period last year. These results reflected lower net sales in the Europe region, particularly a Canada, partially offset by increases in net sales in the Asia pacific region. Net sales in the Latin America region were unchanged compared to the same period last year. Third quarter 2006 net sales in Canada were positively impacted by the restate of Almay color cosmetics. In the third quarter of 2007, International operating profits and margins continued to improve compared to the same period last year.
Revlon's operating income was $20.7 million in the third quarter of 2007, versus an operating loss of $57.2 million in the third quarter of 2006. Net loss in the third quarter of 2007 was $10.4 million.