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The Body Shop International

Introduction

It is January 2002. Over the last decade Gordon Roddick, chairman and chief architect of The Body Shop International has seen the value of his personal share in the company slip from more than £90 million (US$165 million) to around £20 million (US$30 million). Anita Roddick, the founder and long term Chief Executive of the company, has suffered a similar loss. Ian McGlinn, a silent partner and the third principal shareholder with 22.5% of the stock, has lost nearly £120 million (US $230 million) over the same period.

The Body Shop International – the international branded cosmetics retailer, icon of corporate social and environmental responsibility, the UK's most successful international retail business and one of the world's leading retail brands – has seen retained profits slump from a high of £13 million in 1992 to a loss of £1.4 million in 2001. New management installed in 1998 has failed to arrest the company's decline. Successive rounds of reorganization and re-launch of product lines and stores have failed to reinvigorate sales or consumer confidence in many of the company's most important markets, including the UK and the US. Senior executives have continued to depart and restructuring costs continue to be one of the main expense items. Commentators see the brand as dated and uninteresting. Wealthy competitors such as Bath and Body Works and Aveda seem to have beaten The Body Shop International at its own game, and even boot-strap upstarts like the Lush appear to have more interesting product lines.

As a result, the company has been up for sale since October 2001. Gordon has received several expressions of interest - none of which has resulted in a formal bid. One is from Grupo Omnilife, a Mexican firm specializing in door-to-door sales of nutritional supplements in Latin America.[1] US venture capital firm Texas Pacific[2] and French venture capital firm Paribas Affaires Industrielles[3] have appointed advisors to prepare for a potential bid. Mark Constantine, a former supplier to The Body Shop International, the formulator of many of the company's early products and now founder-owner of Lush, has publicly aired his interest.[4] A fifth, private bid is firming up with a group of US investors advised by a former Body Shop International executive, that plan to reaffirm a values-led approach to management. There is no evidence of interest in a trade purchase by any of the company's retail competitors.[5]

What seems to unite all of the possible bids is a reluctance to pay a high price premium. When Grupo Onmilife held talks with Gordon in June 2001, the asking price was believed to be in the region of £360 million, or £1.85 per share. Paribas and Texas Pacific are reported to value the firm at around £250 million (about £1.25 per share) and analysts have commented that given the slow 2001 Christmas season, the Body Shop International may struggle to realize that price.[6] The Body Shop International's shares have traded between £0.70 and £1.32 in the 12 months proceeding January 2002. All of the bids seem to depend on commercial financing to an extent, and in the midst of a severe market downturn, no one seems willing to value the company at even half its peak valuation of £3.70 per share in February 1992 or even close to its more recent peak of £2.20 in November 1996. With luck the best price Gordon might hope to achieve would likely be £1.25 per share.

Owning 47% of this publicly traded UK company has always given the Roddicks and McGlinn absolute control of the strategy and day-to-day management of the firm. Now Gordon will have to decide whether his interests and also the interests of other investors and stakeholders are best served by selling out at a commercial bid price, or by taking the company off the market and trying to turn around the company's fortunes and boost its market valuation, perhaps through new internal management. Gordon and the potential bidders seemto believe that there is untapped potential value in The Body Shop International's powerful brand that could be released given the right combination of governance and management.

The decision is Gordon Roddick's. Despite Anita's public profile over the years, she has always deferred to Gordon on important strategic matters – particularly those involving the financial aspects of the company. It was Gordon that led the stock market flotation in April 1984 and who led the abortive 1995/96 attempt to take the company private. It was Gordon who led two potential spin-off businesses: the ill-fated internet sales company The Body Shop Digital and the herbal remedy offshoot Botanicus[7]. Most importantly, it is Gordon who controls the relationship with Ian McGlinn, the silent partner who no other officer of the company is permitted to contact. And it is Gordon who is speaking to the potential bidders.

Background and Early History

Gordon and Anita Roddick

Gordon and Anita Roddick met in Littlehampton, UK, in the late 1960s, after each had traveled and worked around the world. Gordon, who had grown up in Scotland, had been employed at an African tin mine, paddled down the Amazon, and worked on a sheep farm in Australia. Anita, born of Italian-immigrant parents in Littlehampton, had spent time on an Israeli kibbutz before working in Paris for the International Herald Tribune and in Geneva for the International Labour Organization. Although they had different personalities, they were drawn together by similar interests in social justice.

By the early 1970s, Gordon and Anita had two young daughters and had experimented with a number of business ventures in Littlehampton - a small hotel, an Italian restaurant and an American-style diner. In 1976, as Gordon was planning to leave the family to pursue a lifelong dream of riding on horseback from Buenos Aires to New York, Anita was formulating her ideas for a shop that would sell skin and hair care products made from natural ingredients.

The First Store

With Anita's inspiration, Gordon's business plan and a £4,000 loan from the bank, the Roddicks opened the first Body Shop on March 27, 1976, in a small green-painted storefront in the resort town of Brighton. Anita had worked with a local herbalist to develop twenty-five products using readily available natural ingredients like cocoa butter, almond oil and aloe vera. These were packaged in the least expensive plastic bottles she could find, identified with hand-written labels, and produced in a range of different sizes to fill the store shelves. Anita wrote cards that provided information on the products and the ingredients. As the first store was opening, part of the folklore of the company relates how neighbouring funeral homes objected to the name of the shop, which prompted Anita to place an anonymous call to the local newspapers. According to the story the resulting publicity brought in many curious new customers and revealed Anita's instinct for successful marketing through the media.

Buoyed by a profitable summer and the success of The Body Shop concept of selling naturally-based skin and hair products in a comfortable store atmosphere, Anita sought financing to open a second store. Ian McGlinn, a local garage owner, offered a £4,000 loan in return for a half share of the business. When Anita sent word to Gordon in South America, he advised Anita against giving away ownership in the company to finance expansion, but by the time his letter arrived, the deal had already been sealed. When Gordon returned in the spring of 1977, he created a franchising system as an alternative way to grow the business. The Roddicks issued the first franchise that same year and the first international franchise in Brussels in 1978. The Roddicks were soon fielding calls from potential franchisees from across Europe and beyond, and The Body Shop International began to take off.

Going Public

By 1984, The Body Shop International had grown rapidly to almost 100 shops and Anita had been honoured with the Veuve Clicquot Business Woman of the Year Award in the UK. The social and environmental values that were incorporated into the company's products were defining a new nice market in the cosmetics industry. Seeking to continue to expand The Body Shop International concept around the world, add further credibility to their business approach and to increase access to prime international retail locations, Gordon prepared the way to take The Body Shop International public and issue shares on the London Stock Exchange.

After going public on London's Unlisted Securities market in April 1984, The Body Shop International shares rose from £0.93 to £1.64 and the Roddick's net worth rose to £3 million.[8] Anita Roddick was uncomfortable with social perceptions that economic value was the most important indicator of success. Anita recalled her conversation with Gordon on the day the stock floated:

> *"The accolades were so bizarre. Because what they're patting you on the back for is how much you are worth. I turned to Gordon and said 'Is that it?...' it was then that we decided that we wouldn't sell out, that we would put up obstacles to thinking like a large corporation."*[9]

To Anita, "thinking like a large corporation" signified creating wealth in a way that "corroded the spirit". Since opening the first store, the Roddicks had always conducted their business and created new products in ways that were consistant with their values of social activism. With their new platform as the leaders of a public company, the Roddicks now realized that that The Body Shop International could be a major force for good, and could be a role model for making '*profit with principles*'.

Profit with Principles Strategy

Through the 1970s and 1980s, The Body Shop International led the body care industry in creating a niche market sector for skin and hair care products that were inspired by natural ingredients and not tested on animals. *Forbes* magazine described the Body Shop International's market as an increasingly important consumer demographic:

> *"Typical Body Shoppers are at the back of the baby boom, a skeptical group. They distrust advertising and sales hype, demand more product information than their elders, and are loyal to companies they consider responsible corporate citizens"*[10]

By January 2002, The Body Shop International operated as a branded hair care, skin care and cosmetics retailer in 50 countries with almost 2,000 stores world wide (see Exhibit A) and turnover of £380 million (Exhibit B).

In the early days, the mainstream business model for cosmetics retailers was to sell products that promised beauty and youth to women. Backed by huge advertising budgets, Anita Roddick saw these companies as perpetrating "scandalous lies" about the ability of their products to prevent ageing and wrinkles and deliver attractiveness and desirability to their customers. Anita perceived this approach as an example of large companies exploiting the hopes and insecurities of women for the sake of making a profit. Anita explained:

> *"In 1976, when the first Body Shop opened in Brighton, there was something intimidating about buying cosmetics. They were usually sold by heavily made-up staff from behind gleaming counters. They came lavishly wrapped and often available in one size only"*.[11]

In response, a key component of The Body Shop International's evolving *'profit with principles'* philosophy included providing honest information about product benefits that was not overstated, in a store environment that was designed to be friendly and non-intimidating. In addition, The Body Shop International actively campaigned to expose the myth of the perfect body and to support women's self esteem. Ruby, the campaign's "Rubinesque" mascot was a doll designed to "represent real women". Campaign posters read: "*There are three billion women in the world who don't look like supermodels and only eight who do*". To illustrate the approach of their new company, Anita Roddick would ask:

> *"Where are the Quakers of today? Where are those great people who made a lot of money by making honest products and telling no lies and being part of the community and being good citizens?"*[12]

The Body Shop International's Profits with Principles philosophy was based on a belief that financial success could go hand in hand with real social and environmental commitments and activism. Anita expressed the belief that part of the genius of The Body Shop International was that it *"demonstrated the genius of the AND, not the terrorism of the OR."*[13] The Body Shop International was about demonstrating that win-win outcomes were possible between social, environmental activities and excellent financial returns to shareholders. Professor David Steingard[14] completed a PhD while following Anita's movements at close quarters for three years during the mid 1990s, and made this observation:

> *"In moments of greatness at the company – both socially and commercially – I witnessed a seamless, synergistic, and almost indistinguishable relationship between profits and principles. I can recall many occasions during my research where I would ponder: 'Is this a global cosmetics retailer out to make a buck or an activist organization trying to save the world?'"*

Campaigns

The Body Shop International also included campaigning as part of its *'profit with principles'* philosophy. Beginning in the late 1980s, The Body Shop International campaigned against animal testing in the cosmetics industry, enshrining this position in its Charter (Exhibit C). Throughout the company's history The Body Shop International had been committed to ensuring that their own products and practices did not support animal testing of cosmetics. The Body Shop International's "Against Animal Testing" monitoring and enforcement practices were ultimately audited and certified against the ISO 9002 standard in 1995. The company's ongoing practices and campaigns played an important role in the ban on cosmetics testing on animals in the UK in 1998, and in the agreement by the European Union to ban cosmetics testing on animals, planned for 2003.

In addition to campaigns that focused on self esteem and animal testing, The Body Shop International also undertook campaigns focused on defending human rights and protecting the environment and endangered species. In 1989, The Body Shop International's *'Stop the Burning'* campaign collected hundreds of thousands of signatures calling for the Brazilian government to halt the mass burning of tropical rainforests. In 1994, the company collected several million signatures to help protect endangered species from illegal trade that was threatening their survival. In addition, throughout much of the 1990s, The Body Shop International campaigned on behalf of the Ogoni people of Nigeria, whose environment was being exploited by international oil companies and who were subjected to appalling human rights abuses by the Nigerian government. See Exhibit D for a listing of some of The Body Shop International's high-profile social and environmental campaigns.

Community Trade

Another important pillar of The Body Shop International's *'profits with principles'* approach was its community trade activities. The Body Shop International's community trade activities were grounded in the principles set out in its Trading Charter: i.e. to *"support long-term, sustainable relationships with communities in need,"* and to *"pay special attention to those minority groups, women, and disadvantaged peoples who are socially and economically marginalised."*

Community trade was a targeted purchasing program that actively addressed poverty by paying fair prices for natural ingredients, gift items and accessories purchased from disadvantaged community organizations in poor regions of developed and developing countries. For example, The Body Shop International sourced cocoa butter and shea butter from community groups in Ghana, beeswax from traditional bee keepers in Zambia and babassu oil from a co-operative in Brazil. In 2001, The Body Shop International sourced £5 million of products from 42 groups in 26 countries, including nearly 400 tonnes of natural ingredients. See Exhibit E for further information on The Body Shop International's community trade activities.

The Body Shop International's trading charter and business principles also applied to disadvantaged communities in developed countries. In 1988, The Body Shop International invested £1 million to set up a soap making facility in the Easterhouse housing district of Glasgow, Scotland, a low-income housing estate built to house families cleared from Glasgow slums after the second World War. Unemployment was high in the area, shops were boarded up and community amenities were virtually non-existent. The initial Soapworks facility opened with 14 staff (the majority of which were previously unemployed). By 1992 Soapworks had expanded to meet the total demand for soap products by The Body Shop International. By early 2002 Soapworks employed over 100 people from the local area and was providing a comprehensive range of over 75 different soaps for several customers in addition to The Body Shop International.

In a spin-off social business venture that received initial investment from the Body Shop International, Gordon Roddick was instrumental in founding a weekly newspaper to be sold by the homeless and unemployed in London. Launched in 1991, *The Big Issue* newspaper eventually became a self-financing current affairs magazine with a circulation of around 200,000, written by professional journalists and providing income for street vendors looking to overcome various issues related to homelessness.

Environmental and Social Performance

In addition to launching campaigns to protect the rainforest, uphold human rights and save endangered species, The Body Shop International also integrated environmental and social performance standards throughout its internal operations, and enshrined these in its Trading Charter (Exhibit C). In 1992, the company developed its first Eco-Management and Audit Scheme (EMAS) corporate environmental statement. One year later, it took a 15% stake in a Welsh wind farm to support the development of renewable energy and offset carbon dioxide emissions from the company's operations. The Body Shop International has also taken measures to minimize waste generated in its product packaging as well as in its offices and stores. The Body Shop International worked to reduce the life cycle impacts of its products from design, through use to disposal and recycling.

In 1995, The Body Shop International published the Values Report, its first comprehensive social, environmental and animal protection audit. The report included the results of surveys and consultations with 5,000 direct stakeholders including franchisees, employees, investors, customers and other key groups. This report (as well as The Body Shop International's 1997 Values Report) received the highest ranking by the United Nations Environment Program and SustainAbility (a UK-based sustainability consultancy) in their international benchmarking surveys of corporate sustainability reports.[15]

Marketing

Throughout the 1980s and 1990s, The Body Shop International relied on their products, their social and environmental record as well as activist campaigns and Anita's personal publicity to sell 'The Body Shop' concept. As evidenced by the free publicity Anita gained in the local press over the controversy of the name of her new shop, Anita was exceptionally talented at building a strong, bold brand image for The Body Shop International through guerilla marketing techniques and public campaigning on social and environmental issues.

Advised by sparky, counter-culture marketer Jilly Forster (later to become a main board member), some of Anita's greatest marketing successes occurred when Body Shop International products or ingredients were a central part of the activist campaign story. The Body Shop International's first campaign, '*Save the Whales*', embodied this idea, since the campaign promoted the company's jojoba oil products as an alternative to traditional cosmetics products made from sperm whale oil. The '*Against Animal Testing*' campaign was a constant product-related theme throughout the 1990s. By the end of the decade, the campaign not only resulted in major public policy shifts in the UK and the European Union to prevent unnecessary animal testing of finished cosmetics, but also ensured that consumers were well informed about the differentiation of The Body Shop International's products in relation to this issue.

The launch of its hemp product line in 1997 provided a powerful example of The Body Shop International's potential when successfully blending campaigns with product marketing. With hemp as an ingredient in a number of new products, the company demonstrated an edgy challenge to the mainstream, drawing predictable criticism from conservative quarters that saw the new product line as providing vicarious support to the legalization of cannabis as a recreational drug. For The Body Shop International, it was an excellent opportunity to educate customers and the public about the significant environmental benefits of hemp, while also introducing the exciting nature of the company's products. Exhibit F includes a number of shop window posters from various marketing and advocacy campaigns over the years.

In the early days, and with occasional product line successes like the hemp range, the Roddicks' social mission and products differentiated The Body Shop International in a marketplace that was becoming increasingly crowded. Customers seemed to respond to the fact that they could buy products that contained naturally-based ingredients that did not involve cruelty to animals and helped to better people's lives.

However, the ability of the company to deliver 'triple bottom line' performance, linking public relations effectively to the direct interests of customers in an ever-expanding, virtuous cycle of social activism and sales was increasingly in question throughout the 1990s. Head of Social Innovation in the early 1990s Dr Jeremy Sherman (now a management consultant) reflects on a significant contradiction at the heart of The Body Shop International marketing strategy:

> *"It's a rare business whose market appeal is completely compatible with real social change, and the Body Shop was not one of them. I don't think Anita ever really appreciated that it was her personality, not her causes that made her popular with customers. Her causes—on par with her wild hair and sharp tongue, were perceived primarily as alluring proof that you could be your whole eccentric self and be hugely successful at the same time."*

Despite the contradictions, The Body Shop International brand was named the 28th top brand in the world and second in the retail sector according to the 1997 Interbrand survey criteria.[16] In a 1998 report, a survey of international chief executives in the *Financial Times* ranked The Body Shop International the 27th most respected company in the world.[17] And in 1999, The Body Shop International brand was voted the second most-trusted brand in the United Kingdom by the UK Consumers Association.[18] Even as late as 2002, polls of opinion-formers conducted by Toronto-based Environics International regularly cited The Body Shop International as one of the top five leading proponents of sustainability and social responsibility, alongside such titans as DuPont, BP and Shell.[19]

The Beauty Business

The Body Shop International's success at marketing itself through social campaigning and without paid advertising was unique in the cosmetics industry where analysts estimate that cosmetics and body care firms spend an average of 20-25% of their sales on advertising – and sometimes much more to advertise high-end products.

Establishing a strong brand is a key success factor in the global cosmetics industry which is characterized by low switching costs, a high degree of competition and relatively low product differentiation. Other key success factors include new product development (to seek to differentiate and stay ahead of the competition), product breadth (as many customers demand "one stop shopping" for their toiletry and cosmetic needs), and effective distribution of products through traditional and new distribution channels.[20]

Today, analysts estimate that the global skin care, hair care and make-up industry is worth US $80 billion,[21] with demand being driven by wealthy baby boomers in the West and by the growing middle classes in emerging and developing countries. But this has not always been the case.

The use of plant, animal and mineral formulas to enhance appearance in various ways is found throughout history in virtually all cultures. Indeed, it is part of the folklore of The Body Shop International that Anita acquired many of her ideas for natural body care products from traveling the world and learning from the traditional practices of various cultures. In the West, before the 20th century, women often created their own beauty treatments in their kitchens from family recipes.[22] In the early 1900s, the rise of capabilities for mass production coincided with increasing mass media exposure to idealized concepts of beauty through movies, magazines and photography, creating the context for the growth of the modern beauty industry. Within a few years of 1910, a number of today's industry-leading businesses were founded: L'Oréal in Paris, Nivea in Germany, Elizabeth Arden in New York and Max Factor in Los Angeles. In the 1930s, they were joined by Revlon and, after the Second World War, by Estée Lauder.

Today, the cosmetics and hair and skin care industry is relatively consolidated. In the United States, eight brands control 70% of the skin-care market, while six multinationals account of 80% of make-up sales.[23] As competition has increased in recent decades, many of the dominant companies with their large advertising budgets have come to rely on increasingly extravagant marketing claims to sell their beauty products.

The Last Ten Years

Growth, Competition, Controversy and Complexity

As the company promoted healthy, naturally-inspired products in a comfortable store environment in the 1980s, demand for The Body Shop International franchises was vast and the company experienced rapid growth. In 1990, The Body Shop International received approximately 2,500 applications for franchises around the world. By this time, The Body Shop International had become a large and complex vertically integrated global organization involved in manufacturing, franchising and retailing in 36 countries.

The Body Shop International entered the US market in 1988 and experienced early signs of further success. Anita Roddick recalls:

> *"We thought that when we entered America that we were sacrosanct, untouchable and that we would be able to open up an entirely new market with barely a second thought."*[24]

For the first two years in the US market, The Body Shop International head office opened and ran 14 stores to learn more about the market before beginning franchising in 1990. For the next few years The Body Shop International showed strong growth, but by early 1993, growth in the US suddenly slowed, and then stopped altogether in the face of stiff competition from their main competitor, Bath and Body Works, and a number of other copy-cat shops. Within 18 months of first entering the US market, Anita Roddick explains that Bath and Body Works…

> *"…had 100 stores grossing $45 million a year. Within another 18 months, there were around 30 different look-alikes of The Body Shop and we were struggling."*[25]

As The Body Shop International began to lose customers in the US and elsewhere, the share price began to decline. While the company was facing this stiff competition, some controversial media reports began to question The Body Shop International's compliance with its espoused ethical standards.[26]

In addition to the increased competition and media controversy, the slower growth had a number of other causes. Analysts that had previously seen The Body Shop International's activism and focus on social and environmental issues as a source of differentiation and brand value now began to question if the company's senior management were allowing themselves to be too diverted by wider global issues. However, in the view of former managing director (CEO) Stuart Rose: *"It wasn't the activism that caused us not to make big profits, it was the complexity of the business and the difficulty of management."* [27]

Something Needed to Be Done – The Shift to Formal Management Systems

By the early 1990s, Gordon knew that something needed to be done to address the challenges. Passion for social and environmental activism was necessary – but not sufficient – for The Body Shop International's continued success. The company was in need of the kind of major shift from informal approaches to formal management systems that occurs in all growing businesses. Gordon knew that he and Anita needed to step back from running day-to-day operations and that they needed to bring in management professionals to tighten inventory controls, introduce budgeting and business planning systems and streamline processes.

In the case of The Body Shop International, the shift to formal management systems came relatively late in the business growth cycle. The shift ushered in a more 'no-nonsense' approach to managerial failure, with a sequence of high profile appointments and dismissals – most particularly in the marketing and communications area.[28] In 1994 Managing Director (CEO) John Jackson was dismissed for reasons that were unclear to staff. This was followed by early attempts at restructuring the organization, supervised by a relatively unknown management consultant based in the US, who charged the company millions of dollars for his services, much to the chagrin of Anita Roddick. This restructuring, led by Gordon and subsequent managing director Stuart Rose, addressed few of the fundamental issues facing the company and was subsequently harshly critiqued by Anita[29]. She believed it resulted in significant confusion for head office managers and their staff, who were perplexed by the brutality of the hierarchical restructuring process and the alien language that accompanied it. She felt the process focused far more on problem identification rather than the celebration of success.

Determined that The Body Shop International was about "doing things differently", Anita was ambivalent about these early efforts at restructuring and systemization and she railed against the administrative bureaucracy she was being forced to adopt. She told *Fortune* magazine in 1996:

> *"We're having to grow up, we have to get methods in, processes in, and the result of that is a hierarchy that comes in, and I think it's anti-productive. We've gone through a period of squashing one hell of a lot of the entrepreneurial spirit."*[30]

Anita Roddick believed that formalized business processes, systems, and integration were antithetical to the passion and values that had been a key factor of what made The Body Shop International successful and unique.

Gordon considered a buyout in 1995/96 to take the company private again, but abandoned the plans due to the level of debt that would be involved in the deal.

In 1996, two new internal Main Board Members were appointed by Gordon Roddick to take control of key portfolios: Terry Hartin, (former CEO of a Body Shop supplier, CosTec who was subsequently appointed head of the US business) was appointed Executive Board Member Responsible for Product Development, and Ivan Levy (the head franchisee for Switzerland) was appointed Executive Board Member Responsible for Sales. Together with the new head of communications Marina Galanti (a relative unknown from Benneton appointed in mid-1997), these three executives were charged with driving forward a new, unified strategy for product, sales and marketing. This strategy failed – largely because of barely disguised fundamental disagreements between the three executives.

Former head of global supply Bob McCusker explains:

> *"At first view, the appointments of Terry, Ivan and Marina were well thought through and brought a balance of complementary skill sets that could – and should – have gelled . However it soon became clear that each of them had their own very clear – and very different – views of what the problems facing the company were, and how they might be solved. They were unable to find common ground on the type of product to be developed and launched, the cost/price of those products, and how they might be marketed."*

And thus in 1998, Gordon Roddick announced the appointment of a new CEO, Patrick Gournay, a former executive with Group Danone, the French food and dairy conglomerate. Gournay had the difficult job of successfully implementing the necessary restructuring: focusing on retailing, consolidating the franchise system, developing a new regional structure, implementing distribution and IT systems and divesting the company of manufacturing. The Body Shop International was in need of transforming itself from a product and manufacturing driven organization into a retailing-driven organization. The retailing focus was intended to allow The Body Shop International to have a closer connection to customers and be more responsive to competition and customer needs in different cultures and environments.

The surprise introduction of Gournay led to much commentary on the end of Anita Roddick's tenure as Chief Executive, as it was made clear in the public positioning of the announcement by Gordon Roddick and Stuart Rose that this meant a significant stepping-down for The Body Shop International founder. The announcement was closely followed by the unveiling of a retail-focused strategy requiring divestment of manufacturing plants employing 300 employees – ending forever the vertically integrated model (manufacturing, distribution, wholesaling and some direct retailing) that had succeeded so well in the early years of the company's existence. There was also to be a significant downsizing of head office functions. Hartin, Levy and Galanti left. Redundancy costs soared. In the period 1997 to 2001, restructuring and redundancy costs totaled £20 million.

Gordon's appointment of Gournay (and a number of new Main Board members) and the accompanying shareholder value maximization approach signaled a major shift in strategy for The Body Shop International that had major implications for the company. Former head of Learning and Development Jim McNeish explains:

> *"On reflection, the leadership of The Body Shop International was no less skilled and no more political then any other Board. And the operational leaders, this next tier down in the company, were all seasoned individuals with plenty of experience of organizational chaos and schisms. What created the drama was the fact that it was passion that recruited most of the operational leaders into the business. Here was an opportunity to play out the biggest experiment in the history of business – a commercial enterprise with a real and active conscience; a true values-led organization. They tolerated the dysfunction, (we're family), the chaos (we're an experiment) and the clashing agendas (we're complex) because there was a vision worth being part of. When the new Board arrived with its textbook strategy for pumping out branded products – the game was over. If it was just about profitability then there were bigger and more exciting brands to be a part of… Within a year of the new Board forming nearly every member of management below the executive team had requested severance terms."*

The Financials

The period 1992 to 2002 marked a period of steady decline in share price and profits for The Body Shop International (see Exhibit G and Exhibit B). In contrast, dividends and debt increased fairly steadily from 1990 to 2002 (see Exhibit B).

Annual and half-year financial results announcements in the City of London were not the bravura affairs of the late 1980s when the company had shares that "defied gravity"[31] and when Anita Roddick could publicly tweak the tails of those she referred to as "pin striped dinosaurs" – the financial analysts and investors who had the temerity to question the company's accountability to the stock market.[32] Instead, briefings to analysts and investors became increasingly apologetic affairs during the 1990s, with confidence slipping and re-organizations and new appointments failing to deliver improved performance.

Head of Investor Relations for The Body Shop International between 1994 and 2002, Angela Bawtree, describes a situation of some resignation on the part of institutional and individual investors:

> *"Investors were very well aware that they were investing in a very different organisation in The Body Shop – one that defied the 'text-book' public company in so many ways. Many of the longer-term investors showed remarkable patience when the UK downturn of the early 1990s was followed by such prolonged underperformance in the USA. However, investor confidence became more seriously challenged when reorganisation followed reorganisation - with exceptional costs becoming a regular and significant feature year after year - but financial performance stubbornly refused to improve. The 'new management' story became apocryphal."*

The Cultural and Institutional Forces

In a company like The Body Shop International, no strategic decision was ever straightforward. From the launch of a new product to the crafting of a press release, the company's culture of debate and questioning (actively role modeled by Anita Roddick) led to indecision and politicking that internal and external stakeholders often found maddening. Head franchisees were critical of the tendency of 'creative forces' within the company to interfere with, and sometimes unravel, basic business processes such as product launches and distribution. But many were also critical of the 'controlling forces' (epitomized by the offices of the Managing Director, the Finance Director and the Legal Department) that they felt were attempting to impose too much order.

During his tenure as Managing Director, Stuart Rose had claimed that the cultures of these "two silos" were virtually impossible to reconcile. Employees would often receive conflicting instructions on the same initiative from two Main Board Members or their agents on the Executive or Management Committee[33]. Jim McNeish describes the situation he witnessed in the period 1997 to 2001:

> *"What began as misalignment of initiatives escalated into apparently intentional obstruction by conflicting executives. Leadership development events resembled group therapy sessions as senior managers "confessed" to feeling under pressure **not** to co-operate with peers in other departments. Actual collaboration became a covert operation between certain parts of the business.*

The strength of the company in its early years – free-spiritedness and direct decision-taking by a small number of individuals – had turned into a handicap. The anarchic, bold and creative approach that worked so well in the absence of competition in the 1980s did not seem to work so well when business got tougher in the 1990s and other competitive strengths so vital to a global wholesale, distribution and retail business (e.g. in business planning, performance tracking, IT systems, and other formalized business processes) were lacking. Thus by the mid-1990s, some of the same individuals appeared to have lost confidence in the business model and instead sought to advance their vision of what might be a successful strategy without prior notice or agreement, still less full alignment of their colleagues.

At the heart of this complex situation was the relationship between Gordon and Anita Roddick and their fundamentally different personalities and personal philosophies. Anita was the epitome of the free spirit who would "die for a gesture" and who claimed that the company had no right to exist if it lost its soul. Gordon, in contrast, was more cautious and patient and believed that there was no possibility of The Body Shop International delivering social and environmental change without the business first being commercially successful. This philosophical schism – rarely discussed internally or externally – was part of the genius of the company; it was also part of its nemesis.

The Stakeholders

Although The Body Shop International's mission statement prominently asserts the company's aim to *"creatively balance the financial and human needs of our stakeholders: employees, customers, franchisees, suppliers and shareholders"*, the company has always been something of an enigma to its many stakeholders.

Investors and Shareholders

Anyone with a significant stake in The Body Shop International immediately post-flotation in 1984 and who sold before early 1992 made a significant capital gain. Famously known as the "shares that defied gravity" in the early years after being listed on the London Stock Exchange, investors realized a 97.2% annual return between November 1986 and November 1991.[34] In later years, institutional and individual investors did rather less well, even when dividends started to rise significantly in 1996 in an attempt to stabilize market confidence[35] (see Exhibit B).

From a corporate governance perspective the company had also been unconventional. As essentially a privately controlled (if publicly traded) firm, the company eventually appointed three non-executive directors in 1996 - the minimum expected under UK governance guidelines. Non-executives did not play an active role in the firm until the late 1990s when it emerged that one (Adrian Bellamy) was interested in buying an option on the US business. This duly happened in 1998 when Bellamy purchased rights for the US$160 million (sales) US business for $1 million. Another 'outsider' with a strong apparent internal interest was Dutch businessman Ronald de Waal, who was appointed non-executive director in March 2000, after having amassed a personal holding of 9.7 million shares or 5% of the company (see Exhibit H). Although unconventional, these arrangements did not attract significant external criticism, presumably because it might be argued that whereas in former years the social and environmental campaigns of Anita Roddick might have occasionally served to distract the company from its obligations to investors, at least by 2001, key players on the Board had a significant equity stake and therefore had interests wholly aligned with those of institutional and individual shareholders.

Franchisees

Another stakeholder group that experienced a full range of successes and anxieties between 1992 and 2002 were the franchisees. Originally a business wholly dependent on franchisees for its growth, by 1992 The Body Shop International was operating with 727 shops in 41 countries. The Body Shop International head office operated as "head franchisee" in the US and UK markets, with "national head franchisees" holding rights to each of the other 39 markets. Sub-franchisees held rights to individual stores or regions within countries, thus creating a three-tier franchising system in a number of areas. In 1992, only 42 (or 6%) of the shops were company owned.

By 2002, The Body Shop International's map of the world looked somewhat different. The company was operating in 50 countries with 1,954 shops (see Exhibit A). In an effort to improve margins in the US and re-invigorate UK stores, The Body Shop International started buying back local franchises where individuals were either struggling or failing to invest. In some cases this involved settling acrimonious disputes. Also, following disagreements with head franchisees in Singapore, Germany and France, those national franchises were repossessed by the company. By early 2002, The Body Shop International head office operated as head franchisee in 8 markets, and the company directly owned 563 (or 29%) of the shops.

But these statistics do not describe the franchisee story in full. For many national and local franchisees, joining The Body Shop International family in the 1980s was a commitment based on both economics and personal values. Many franchisees had been very excited by the vision of naturally-based cosmetics sold with a social and environmental conscience, and The Body Shop International franchising system empowered individuals to become directly involved with spreading 'The Body Shop' concept. For others franchisees, the investment was simply a business proposition. Therefore, by 1992, the franchisees represented a wide spectrum of values-led, values-tolerant and values-indifferent stakeholders. But nearly everyone was winning, because the concept was appealing to consumers, there was very little competition, and, for retail staff, there was genuine pride in being associated with a company combining profits with principles. In most markets, this translated directly into greater motivation and sales efforts. Like-for-like (same store) sales increased, profits grew smoothly, confidence was high, and positive PR from the various social and environmental campaigns was rewarded in store and in the community. Franchisees from Toronto to Melbourne basked in the esteem of their customers, their communities, and their peers.

From 1992, things started to deteriorate on multiple fronts for franchisees. Competition arrived – most severely with Bath and Body Works in the US and Boots the UK. The Body Shop International's one-time unique natural products came into competition with similar premium products from AVEDA, Lush, Origins, and others. The Body Shop International's like-for-like store sales began to decline and many franchisees struggled to cover their debts as sales slumped. The three-tier franchising system that had been fundamental to the company's growth was now pressured by ever-narrower margins at each level. This structure also made flexibility in adapting to new global market realities and competition more difficult.

To compound difficulties, The Body Shop International seemed to lose confidence in its business model and began to install new management who seemed to have less respect for relationships with franchisees than had been the case in former times. An apparent lack of unity of purpose between head office departments led to distribution and stock control problems, delayed product launches and switches in priorities.

In 1997, when the second Values Report social audit was published, surveys of franchisees and head franchisees indicated favourable perceptions of the values and mission of The Body Shop International. However, there were a number of growing concerns about head office clearly communicating its long-term business and marketing strategies and also concerns with head office responding to concerns in a quick and efficient manner. A number of head franchisees were dissatisfied with senior management accountability for decision-making and there were also concerns about unnecessary conflicts and disputes.[36]

There is no evidence that relations between The Body Shop International and its franchisees improved between 1997 and 2002 (no further independent audits of franchisee opinion were conducted after 1997). Moreover, it became clear in 1998 that the newly appointed CEO Patrick Gournay did not see franchisee relations as central to his strategy. Former head of Public Affairs Gavin Grant explains:

> *"Patrick seemed to be adopting an approach which saw more power and management control for the Centre. He signaled this at the International Franchise Meeting (IFM) in Barcelona in 1998. Franchises at both national and sub-national levels were acquired and kept by BSI thus increasing margins for BSI. Patrick further strengthened regionally based management structures with specific responsibility for franchisee relations."*

However, there was confusion over the messages that franchisees were receiving. Grant describes a road show organized by communications head Marina Galanti to communicate a new brand positioning to International Francisesees and their marketeers.

> *"These meetings were held in the glossy locations of Phuket, Rhodes and New York, not a tradition for meetings of The Body Shop, the Head Franchisees were further confused as Marina admitted that the brand position she put forward had not been reviewed, let alone approved by the Board and her target audience of trendy, international, jet-setting young women was light years away from the day to day experience of the franchisees' loyal customers."*

Employees and Managers

Employees and managers at the head office and in the retail stores also experienced the full range of emotions felt by the franchisees during the 1990s. In 1992, 6,800 employees of The Body Shop International worked at head office locations in administration, manufacturing and warehousing positions as well as in shops as retail staff. Like many of the franchisees, these employees felt strong pride in the company and what it stood for. The Body Shop International's public campaigns on a range of controversial environmental and social issues were supported enthusiastically by many employees, some of whom initiated their own, more locally focused interventions. The Canadian franchisees and employees supported a long term campaign against violence against women and the Australian franchisees and employees mobilized an international lobbying campaign on the French government on the issue of nuclear weapons testing in the South Pacific.

Employees of The Body Shop International and its franchisees joined marches, undertook letter-writing campaigns and even helped organize boycotts of oil giant Shell because of its record in Nigeria. Strongly encouraged by Anita and Gordon Roddick and (by 1993) supported by a professional campaign team comprised of several former NGO activists, staff believed they were in the business both of selling cosmetics and making the world a better place. For the most part they were confident and motivated. Company T-shirts were worn with pride and year-end celebrations were genuine.

However, by the mid-1990s, employees were also picking up some negative signals. Attacks on the company's reputation by investigative reporters from a UK television program (Channel 4's Dispatches) in 1992 were followed by other critical commentary in German, Dutch and Danish media. In 1994, the US corporate social responsibility magazine *Business Ethics* carried further allegations about franchisee and employee relations in the US. The Body Shop International responded aggressively to these attacks. It also started responding more strongly to its competitors, launching more conventional sales training programs for retail employees.

By 1997, it was becoming clear to employees that The Body Shop International was losing its way. Results of employee surveys still showed overwhelming support for the company's mission and values, but rather less confidence in the business strategy and the quality of management. As one employee commented,

> *"There is a confusion in how we manage the business – rather than resolve issues, create stability and build on a firm foundation we seem to be constantly changing roles, direction and priority, much more so than is needed."*[37]

Customers

Between 1992 and 2002, the total number of worldwide stores increased from 727 to 1954, however, on average, like-for-like store sales remained relatively static. The reaction of retail analysts to this trend was clear: The Body Shop International brand was tired and the company was losing touch with its customers. A sympathetic advertising executive Andy Law made this point in Marketing Magazine:

> *"Where the brand has perhaps taken a wrong direction is that the relationship between its values & products appears to have been watered down. Consequently its relationship with customers has been affected."*[38]

Until 1992, The Body Shop International conducted almost no market research to explore customer attitudes to the company, its stores or its products. The extensive customer surveys conducted for the 1995 and 1997 Values Reports indicated that customers perceived the company as performing well against its mission – including its campaigning on human rights, the environment, animal testing, and community trade. Customers generally perceived The Body Shop International as caring about them, although there were signs that this perception might be changing.

Other Key Stakeholders: Suppliers, Fair Trade Partners and Non-Governmental Organizations

As Gordon is well aware, evidence from the 1997 Values Report indicated that during the mid-1990s, The Body Shop International's relations with key stakeholders beyond the four described in detail above were mixed. Three stakeholder groups on which the company had built a great deal of its reputation were conventional suppliers, 'fair trade' partners (mostly community based enterprises in the developing world) and non-governmental organizations with whom the company campaigned or provided with support through charitable donations.

Conventional suppliers were impacted when the company sold its manufacturing facilities in 1998 as part of The Body Shop International's restructuring program. The company continued to have a wide variety of relationships with various NGO groups that ranged from mutually beneficial collaboration to mutual critique. Community trade partners recognized the important contribution that The Body Shop International was making to improve livelihoods in disadvantaged communities at the same time as expressing concerns that high staff turnover, unclear lines of accountability, and the apparent lack of adequate product forecasting systems were challenges.

Both Gordon and Anita Roddick were passionate about their favourite causes and it played out in direct ways – not always to the benefit of existing NGO relationships, as the company veered from one campaign to another. Dr. Jeremy Sherman observed:

> *"Quite understandably, the Roddicks translated their success into personal freedom in how they exercised their commitment to causes. Anita would commit to NGO's on impulse. Anita once charged me with preparing a thorough and thoughtful funding docket for the company, which was completely disregarded at their annual foundation meeting. The Roddicks had already decided who they were funding."*

The Current Situation

By early 2002, it was clear that Patrick Gournay has also failed in his efforts to turn the company around. Severe problems associated with his new product and marketing strategy have resulted in the rapid departures of the heads of marketing communications and products. Sales remain flat and profits continue to languish (see Exhibit B).

Gournay continued to put on a brave face when interviewed in summer 2001: *"The biggest surprise is the complexity of managing the business… therefore any change process takes a lot of time"*.[39] Anita Roddick was less sanguine, and is publicly quoted as describing The Body Shop as a *"dysfunctional coffin"*.[40] At the same time Gordon Roddick was supportive of his appointee, saying that Gournay's *"leadership qualities, strong managerial capability, and experience in change management will help shape the future of The Body Shop in a new era of success and innovation"*. Meanwhile Gordon was putting the company on the market and arranging for the possible final departure of himself and his wife from the company they founded in 1976.

The Decision: To Sell or Not to Sell?

Gordon Roddick has several possible offers on the table, none of which are firm, and all of which seem to value the company at around a third of its peak market valuation of February 1992. Selling at a price of perhaps £1.25 would net Roddick and his wife enough money for their retirements, but it would not make them fabulously wealthy. And how would a sale affect the Roddicks' legacy?

There is the belief among some commentators that the way Gordon and Anita leave the company will have a significant impact on its future. If they leave in a way that is seen as "abandonment", the company might suffer irreparable damage to its reputation. As Gordon himself reflected: *"If the company can't be set free of us, it will die… I'm ready to move on now, I want to shape the next section of my life."* The transition will have to be such that Gordon and Anita are seen to be handing over the company to people they trust, in a way they are happy with.

Insiders in the company have known of Gordon's desire to exit the company with grace since the early 1990s. The re-organizations, the appointments of successively more conventional business managers, the divestment of manufacturing in order to focus on retailing and brand management could all be interpreted as actions consistent with an exit strategy. Any one of these initiatives might have succeeded in re-creating internal and external confidence: bold moves signaling new strategic directions and future growth. Of course taking the company private (as had been tried in 1995/96) would have been ideal – providing the Roddicks with both cash in hand *and* the freedom to tie future profits to good causes. However, this had been attempted at a time when paying of the required bank loan seemed possible, with profits running at £30-35 million annually. Even then, the banks had not been supportive. In January 2002, the prospect of regular profits of £10-12 million paying off even a more modest loan seemed hopelessly optimistic.

Gordon Roddick is caught between several dilemmas. Exiting a normal, founder-led business is one thing; doing so in a values-based business like The Body Shop International in a manner that leaves the Roddicks' pride and legacy intact is quite another. The Roddicks have witnessed first hand the controversy created around the sale of Ben & Jerry's Home-Made Ice Cream to Anglo-Dutch food giant Unilever.[41] How can they stay true to their public reputation for ethical values if they simply sell to a merchant bank? Only one of the possible bids seemed to have ethics 'hard-wired' through governance arrangements but this bid depends on commercial financing and is unlikely to realize a sale price much in excess of £1.25.

Nevertheless, the options seem to be:

- Sale to one of the venture capital firms that seem to be oriented towards maximizing their financial return on investment. This may provide the Roddicks with the best market price possible at this time (around £30 million each for Gordon and Anita to pursue their philanthropic and personal interests). This deal would be followed by the inevitable cost cutting and potentially more cries of pain from stakeholders and perhaps irreparable damage to the Roddicks' legacy.

- Sale to a new management team (including former BSI managers) raising cash from a commercial bank. The bid price would likely be competitive with the venture capital firms, but would fall well short of the price expectations that Gordon is reported to have set for the company. The outcomes for the Roddicks legacy would not be certain, but the indicators are that the new management would attempt to breathe new life into the mission and values of the company.

- Attempt one more internal re-organization of the company in order to try to unlock the potential value in the Body Shop brand and boost the share price for a potential future sale. Given the track record of previous attempts at restructuring and the shift towards maximizing shareholder value in recent years, this option may potentially create generate more money for the Roddicks but may continue to erode the stakeholder values of The Body Shop International.

Each of these options carries significant risks. Which way will Gordon Roddick jump?

Exhibit A:
The Body Shop International Stores World Wide

(as of January 2002)

	Number of Shops owned by Franchisees	Number of Shops owned by Corporate Headquarters	Total Number of Shops	Year First Shop was opened in Country
UK & Republic of Ireland				
UK	134	181	315	1976
Republic of Ireland	10		10	1981
Total	***144***	***181***	***325***	
Americas				
Antigua	1		1	1987
Bahamas	1		1	1985
Bermuda	1		1	1987
Canada	129		129	1980
Cayman Islands	1		1	1989
Mexico		4	4	1993
USA	26	273	299	1988
Total	***159***	***277***	***436***	
Europe, Middle East & Africa				
Austria	7	2	9	1979
Bahrain	7		7	1985
Belgium	17		17	1978
Cyprus	3		3	1983
Denmark	12	6	18	1981
Finland	30		30	1981
France	5	18	23	1982
Germany	46	52	98	1983
Gibraltar	1		1	1988
Greece	56		56	1988
Holland	47		47	1982
Iceland	4		4	1980
Italy	56		56	1984
Kuwait	11		11	1986
Lebanon	5		5	1999
Luxembourg	2		2	1991
Malta	4		4	1987
Norway	32		32	1985
Oman	5		5	1986
Portugal	18		18	1986
Qatar	3		3	1987
Romania	3		3	1999
Saudi Arabia	73		73	1987
South Africa	5		5	2001
Spain	79		79	1986
Sweden	59		59	1979
Switzerland	50		50	1983
UAE	7		7	1983
Total	***647***	***78***	***725***	
Asia Pacific				
Australia	70		70	1983
Brunei	4		4	1993
Hong Kong	22		22	1984
Indonesia	30		30	1990
Japan	108		108	1990
Korea	46		46	1997
Macau	2		2	1997
Malaysia	37		37	1984
New Zealand	17		17	1989
Philippines	26		26	1996
Singapore		27	27	1983
Taiwan	54		54	1988
Thailand	25		25	1993
Total	***441***	***27***	***468***	
Grand Total	***1391***	***563***	***1,954***	

Exhibit B: Financials

The Body Shop International 1992 – 2002

Summary of Turnover and Profit	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Turnover (£m)	147.4	168.3	195.4	219.7	256.5	270.8	293.1	303.7	330.1	374.1	379.6
Operating profit before exceptional costs (£m)	27.9	24.3	30.1	34.5	33.7	38.4	38.1	24.6	33.0	29.4	26.7
Exceptional costs and restructuring costs (£m)			1.1			6.5		21.1	2.7	12.2	11.5
Profit on ordinary activities before taxation (£m)	25.2	21.5	29.7	33.5	32.7	31.7	38.0	3.4	28.8	12.8	11.6
Dividends (£m)	3.0	3.2	3.8	4.5	6.5	9.1	10.8	10.9	10.9	10.9	11.4
Transferred to reserves (retained profit) (£m)	13.4	10.6	15.6	17.3	12.1	8.5	12.0	(15.5)	7.5	(1.4)	(6.0)
Ordinary Dividends per share (pence)	1.6	1.7	2.0	2.4	3.4	4.7	5.6	5.7	5.7	5.7	5.7
Earnings per share (pence)	8.8	7.4	10.3	11.5	9.8	9.2	11.8	(2.4)	9.6	5.0	2.8
Weighted average number of shares in issue (millions)	186	187	188	189	190	192	193	192	191	191	195
Summary of Balance Sheets											
Tangible and intangible fixed assets and investments (£m)	59	70	72	76	79	75	80	88	105	111	117
Net current assets (£m)	21	52	61	61	63	68	54	30	19	15	10
Other provisions and long-term liabilities (£m)	5	39	36	27	19	13	4	4	2	4	3
Shareholders funds (all equity) (£m)	74	82	97	111	123	130	130	114	122	122	124
Total Stores	727	900	1,107	1,210	1,373	1,491	1,594	1,663	1,730	1,830	1,954

Source: The Body Shop International Annual Reports and Accounts.

Exhibit C: The Body Shop International's Mission Statement and Trading Charter

Mission Statement:

- To dedicate our business to the pursuit of social and environmental change.
- To creatively balance the financial and human needs of our stakeholders: employees, customers, franchisees, suppliers and shareholders.
- To courageously ensure that our business is ecologically sustainable: meeting the needs of the present without compromising the future.
- To meaningfully contribute to local, national and international communities in which we trade, by adopting a code of conduct which ensures care, honesty, fairness and respect.
- To passionately campaign for the protection of the environment, human and civil rights, and against animal testing within the cosmetics and toiletries industry.
- To tirelessly work to narrow the gap between principle and practice, whilst making fun, passion and care part of our daily lives.

Trading Charter:

- Our trading relationships of every kind - with customers, franchisees and suppliers - will be commercially viable, mutually beneficial and based on trust and respect.
- We aim to ensure that human and civil rights, as set out in the Universal Declaration of Human Rights, are respected throughout our business activities. We will establish a framework based on this declaration to include criteria for workers' rights embracing a safe, healthy working environment, fair wages, no discrimination on the basis of race, creed, gender or sexual orientation, or physical coercion of any kind.
- We will support long term, sustainable relationships with communities in need. We will pay special attention to those minority groups, women and disadvantaged peoples who are socially and economically marginalised.
- We will use environmentally sustainable resources wherever technically and economically viable. Our purchasing will be based on a system of screening and investigation of the ecological credentials of our finished products, ingredients, packaging and suppliers.
- We will promote animal protection throughout our business activities. We are against animal testing in the cosmetics and toiletries industry. We will not test ingredients or products on animals, nor will we commission others to do so on our behalf. We will use our purchasing power to stop suppliers animal testing.
- We will institute appropriate monitoring, auditing and disclosure mechanisms to ensure our accountability and demonstrate our compliance with these principles.

Exhibit D: Body Shop International Campaigns

The majority of campaigns were initiated by The Body Shop International headquarters in the UK. Country franchisees are free to adopt these campaigns or develop their own, such as The Body Shop Canada's campaign against domestic violence and The Body Shop Australia's campaign against Nuclear Testing in the South Pacific.

Save the Whale
The Body Shop International's first campaign began in 1986 when they joined with Greenpeace UK. As part of this campaign, The Body Shop International promoted jojoba oil as a substitute for whale spermaceti, which had been used in previous years in mass market cosmetics.

Community Trade
Since 1986, The Body Shop International has paid fair prices for natural ingredients, gift items and accessories from Community Trade suppliers around the world.

Against Animal Testing
Since the late 1980s, The Body Shop UK has campaigned against animal testing in the cosmetics industry. The Body Shop International's Charter issued in 1990 stated its opposition, and its campaign played an important role in the British ban on cosmetics testing on animals in 1998.

Stop the Burning
In 1989 The Body Shop International's *'Stop the Burning'* campaign collected almost a million signatures in a petition that called for the Brazilian government to halt to the mass burning of tropical rainforests.

Ozone or No Zone
In 1990 The Body Shop Australia ran a campaign highlighting ozone depletion in the southern hemisphere.

The Big Issue
The Big Issue newspaper, sold by homeless people in the UK, was initiated by Gordon Roddick in 1991 and supported by The Body Shop Foundation.

Ogoni People
From 1993 to 1998, The Body Shop International campaigned on behalf of the Ogoni people of Nigeria, whose environment was being exploited by international oil companies and who were being subjected to appalling human rights abuses by their own government.

Energy and Waste
In 1994, The Body Shop encouraged customers to audit their domestic energy use and reduce waste.

Stop Trade in Endangered Species
In 1994, The Body Shop International collected three million signatures to help protect endangered species from illegal trade that threatens their survival.

Violence Against Women
In 1995, in partnership with women's groups, The Body Shop Canada launched the *'Stop the Violence'* campaign which resulted to changes in domestic violence legislation.

Self Esteem

In 1997, The Body Shop International launched a campaign to expose the myth of the perfect body. Ruby, the campaign's "Rubinesque" mascot, was a doll "representing real women". Campaign posters read: "There are three billion women in the world who don't look like supermodels and only eight who do."

Make Your Mark

In 1998, The Body Shop International worked joined with Amnesty International for the *'Make Your Mark'* campaign to highlight human rights abuses around the world.

Exhibit E: Community Trade Program

Since the late 1980s, The Body Shop International's Community Trade Program has sourced natural cosmetics ingredients and accessories from socially and economically marginalized community groups world-wide, giving these groups access to markets for their products and a means to earn a sustainable livelihood.

The Body Shop International customers value the benefits that their purchases are providing for micro-enterprises in poor communities. Suppliers benefit from access to the global marketplace, fair pricing, business skill support, and long-term sustainable trading relationships.

In 2000, The Body Shop International sourced £5 million of products from 42 groups in 26 countries, including nearly 400 tonnes of natural ingredients.

Some examples of Community Trade suppliers include:

Suppler	**Location**	**Products**
CORR – The Jute Works	Bangladesh	Terracotta pumices and jute items
Coppalj/Assema	Brazil	Babassu oil
Kuapa Kokoo	Ghana	Cocoa beans (for cocoa butter)
Tungteiya Shea Butter Association	Ghana	Shea butter
The Poligono Foundation	Honduras	Loofah products
Teddy Exports	India	Cotton items, gift bags and boxes
Get Paper Industries	Nepal	Paper products
Assoberg	Italy	Bergamot oil
Juan Francisco Paz	Nicaragua	Sesame oil
Silva Co-op Timber Production/Altai	Russia	Wooden products

Fair Trade Guidelines
In 1994, The Body Shop International developed a set of Fair Trade Guidelines to ensure that Community Trade relationships have the greatest chance of fulfilling a community's goals. Five key areas were identified in order to see whether potential Community Trade suppliers would fit into the aims of the Community Trade program:

1. **Community.** BSI looks to work with established community organizations which represent the interests of their people.

2. **Community in Need.** BSI targets those groups who are disadvantaged in some way, those whose opportunities are limited.

3. **Benefits.** BSI wants the primary producers to benefit from the trade - socially as well as economically.

4. **Commercial Viability.** The relationship has to make good commercial sense, meaning that price, quality, capacity and availability are carefully considered.

5. **Environmental Sustainability.** The trade has to meet The Body Shop International standards for environmental and animal protection.

Exhibit F: Example Body Shop Posters

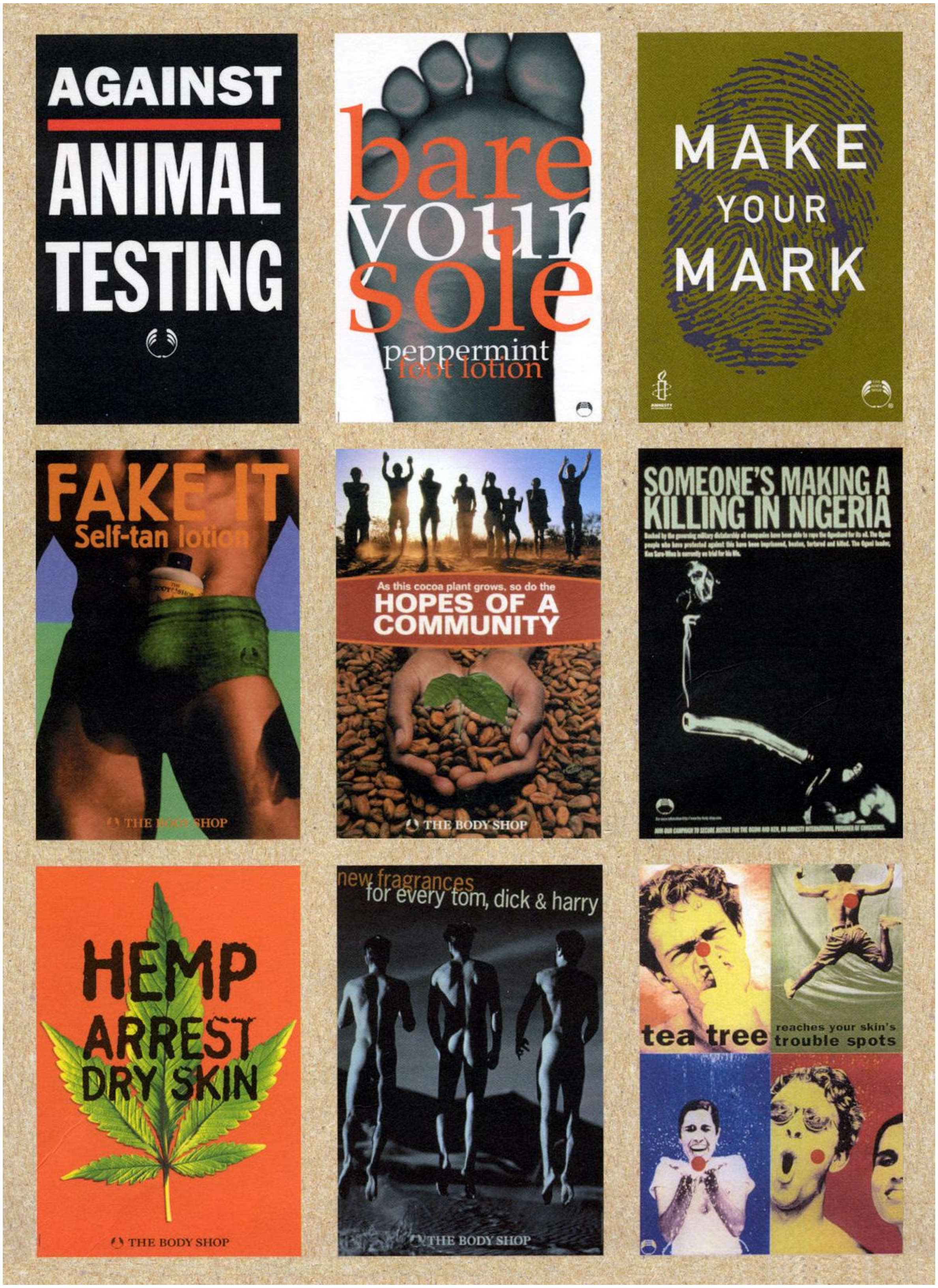
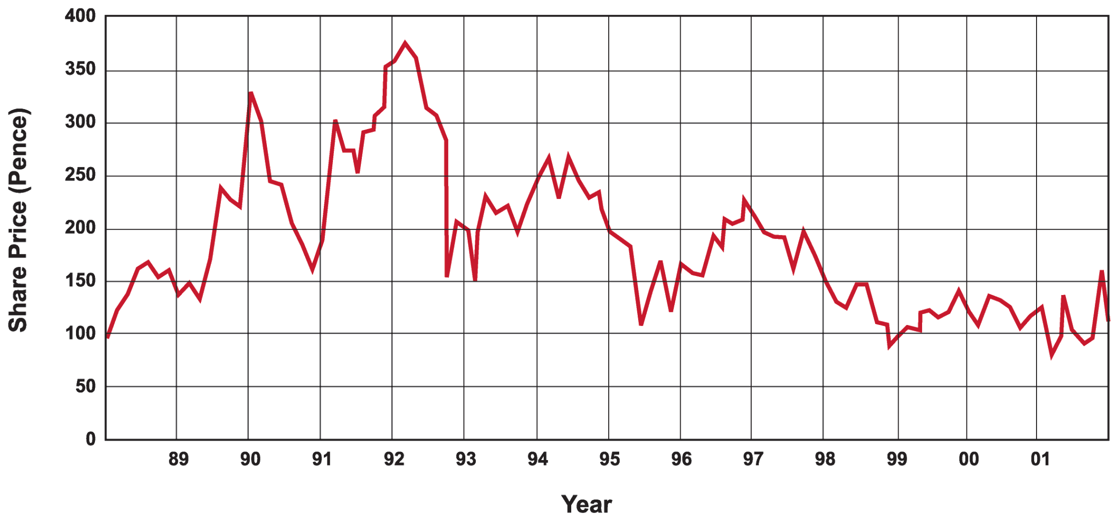


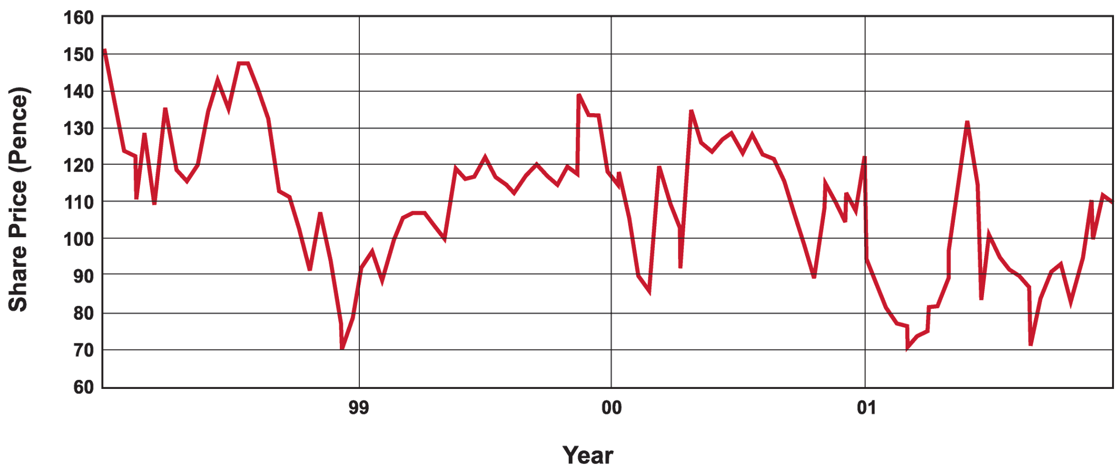
Exhibit G: The Body Shop International Share Price

London Stock Exchange

January 1988 to January 2002



January 1998 to January 2002

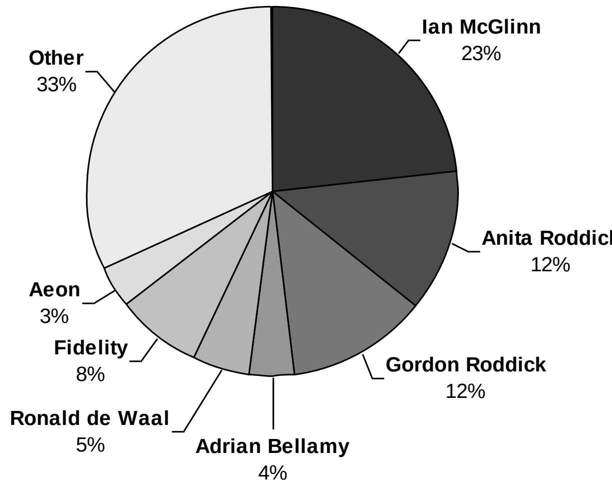


Source: BigCharts.com http://bigcharts.marketwatch.com/intchart/frames/frames.asp?symb=UK:BOS

Exhibit H: Body Shop International Share Ownership

At March 2, 2002

Shareholder	# of Shares
Ian McGlinn	45,666,768
Anita Roddick	24,010,456
Gordon Roddick	24,226,680
Adrian Bellamy	7,425,000
Ronald de Waal	9,705,000
Fidelity	14,866,862
Aeon	6,700,000
Other	62,399,234
Total Shares	195,000,000



Source: The Body Shop Annual Report and Accounts 2002

Exhibit I: Timeline of Key Events

1976	On May 27th, Anita and Gordon open the first Body Shop in Brighton. Later the same year, they open the second Body Shop, after agreeing to a part-ownership deal with Ian McGlinn in return for financing.
1977	Gordon creates a franchising system as an alternative way to grow the company. The Body Shop issues its first franchise.
1978	The Body Shop issues its first international franchise in Brussels. The Body Shop International begins to take off.
1984	The Body Shop International is comprised of almost 100 stores worldwide. In April, the company goes public and shares rise from £0.93 to £1.64.
1986	Anita and Gordon Roddick form an alliance with Greenpeace and collaborate on the '*Save the Whales'* campaign.
1988	The Body Shop International enters the US market.
1989	The Body Shop International's '*Stop the Burning*' campaign collects almost a million signatures.
1990	The Body Shop International receives approximately 2,500 applications for franchises.
1992	Company retained profits reach a high of £13 million and The Body Shop International shares are valued at £3.70. The Body Shop International is operating 727 stores in 41 countries and is head franchisee in the US and UK markets. 6% of stores are company-owned. The company develops its first Eco-Management and Audit Scheme corporate environmental statement. Investigative reporters from a UK television program attack the company's reputation.
1993	The Body Shop International takes a 15% stake in a Welsh wind farm to support the development of renewable energy and to offset carbon dioxide emissions from the company's operations. A professional campaign team, comprised of several former NGO activists, is in place at head office. US growth slows and stops, in the face of stiff competition.
1994	The Body Shop International collects three million signatures to help protect endangered species. Managing Director (CEO) John Jackson is dismissed. The company undergoes early attempts at restructuring, supervised by an US management consulting firm. The magazine *Business Ethics* carries further negative allegations about franchisee and employee relations in the US.

1995	The Body Shop International publishes its first Values Report, a comprehensive social, environmental and animal protection audit. Gordon considers a buyout in 1995/96 to take the company private, but abandons the idea due to the level of debt that would be involved in the deal.
1996	Terry Hartin is appointed as Executive Board Member Responsible for Product Development and Ivan Levy is appointed Executive Board Member Responsible for Sales. Together with Marina Galanti, Head of Communications, these executives are charged with driving forward a new, unified strategy for product, sales and marketing. Three non-executive directors are appointed to the Board.
1997	The Body Shop International stock is valued at £2.15. The Body Shop International launches the hemp product line and helps launch the "Better Business Forum." The company publishes the second Values Report. An Interbrand survey ranks The Body Shop International the 28th top brand in the world and the 2nd top brand in the retail sector.
1998	The UK bans cosmetics testing on animals. A survey of international chief executives by The Financial Post rates The Body Shop International as the 27th most respected company in the world. Gordon appoints Patrick Gournay as CEO, to implement a restructuring of the company. The company unveils a retailed-focused strategy and sells its manufacturing plants. The head office is significantly downsized, and Terry Hartin, Ivan Levy and Marina Galanti leave.
1999	The Body Shop International acquires a 51% stake in Botanicus, a Czech retailer of herbal and hand crafted products. The Body Shop International brand is voted the second most-trusted brand in the United Kingdom by the UK Consumers Association.
2000	Shares of The Body Shop International are trading between £0.70 and £1.32. The Body Shop Digital is launched in May. In December, The Body Shop International offers Softbank up to £4 million to pull out of The Body Shop Digital. Projected financial year-end profits are readjusted downwards to 10-15% below 1999 levels.
2001	The company retains losses of £1.4 million. In September, The Body Shop International is put up for sale.
2002	The Body Shop International operates 1,954 stores in 50 countries. The company is head franchisee in 8 markets and directly owns 29% of its stores. The company writes off £5 million of its investment in Botanicus. Gordon Roddick considers bids for the sale of The Body Shop International.

Exhibit J: Reference of Key Characters

Gordon Roddick
With Anita, co-founder of The Body Shop International in 1976. Chair of the Board of Directors and key decision maker on financial or strategic matters for the company.

Anita Roddick
With Gordon, co-founder of The Body Shop International. Creative genius behind the company's marketing and social and environmental campaigns. Prominent spokesperson and public face of the Body Shop International, although her role was diminished somewhat after the 1998 appointment of Patrick Gournay as CEO and the accompanying shift towards maximizing shareholder value.

Patrick Gournay
Former executive of French food and dairy conglomerate Danone. Appointed Chief Executive Officer of The Body Shop International in 1998. Gournay's appointment signaled a more diminished role for Anita Roddick. Gournay brought with him a focus on branded products and maximizing shareholder value.

Adrian Bellamy:
Adrian Bellamy was appointed to the BSI Board in January 1997 as a Non-Executive Director. In June 1998, The Body Shop International entered into a joint venture Bellamy giving him day to day operational control of the US business and options to acquire up to 51% of that business. In August 2001, the Body Shop International re-purchased rights to the US business and entered into a two year consultancy agreement with Bellamy, through which he continues to chair the board of the US business as well as provide general consultancy services for the benefit of The Body Shop International's global retail business.

Stuart Rose
Stuart Rose was a senior partner in an accounting firm with a corporate finance practice when he helped Gordon Roddick take The Body Shop International public in April 1984. Rose provided various advisory services to The Body Shop International before officially joining the company in 1987. Rose subsequently helped with the acquisition of the US and Japanese Trademarks for The Body Shop business name. In 1994, Rose stepped up to the managing director's position until the appointment of Patrick Gournay in 1998.

Jim McNeish
Jim McNeish joined The Body Shop International from BP International in 1997. As Head of Learning and Development, he brought a focus on executive coaching and performance development, and he oversaw the formation of an informal global learning network. He left in 2000 to take the role of Head of Executive Development for Kingfisher plc.

The Body Shop International

Teaching Note

Case Synopsis

Gordon Roddick, chairman and chief architect of The Body Shop International, has seen the value of his personal share of the company slip significantly in the last 10 years. The Body Shop International – the international branded cosmetics retailer and icon of corporate social and environmental responsibility – has seen retained profits slump from a high of £13 million in 1992 to a loss of £1.4 million in 2001. New management installed in 1998 has failed to arrest the company's decline. Successive rounds of re-organization and re-launch of product lines and stores have failed to re-invigorate sales or consumer confidence in many of the company's most important markets, including the UK and the US. As a result, the company has been up for sale since September 2001. Gordon is interested in using the money from a sale to purse additional social business ventures. There is also the legacy of the values-based firm to consider. Should Gordon proceed to sell the company at a price well below it's peak market valuation in 1992 or should he try once more to return the company to its former glory, and thereby boost its market valuation for a later sale? And how can he ensure in this process that the social and environmental values that have been integral to the success of the company live on?

Learning Objectives

This case is relevant to MBA courses in strategy, sustainability and stakeholder management. This case has a high degree of complexity, due to the interests and fortunes of the various stakeholders and the complex nature of the business itself.

Immediate Issue

Whether Gordon Roddick, the Chairman of the Body Shop International, should sell the company or attempt another internal re-engineering to boost profits and the share price for a future sale.

Other Issues Raised by the Case

1. Strategy shift from stakeholder-centric management to shareholder-centric approach to try to reinvigorate the company
2. Disconnect between the company's intent and their actual performance on relationships with key stakeholders
3. Transition from a small founder-led company to a large, professionally managed company including the shift from informal to formal management systems
4. Conflict between "creative" forces vs. "controlling/business" forces in organizational culture
5. Demonstration of sustainable value creation (social, environmental and economic) and win-win-win outcomes from the "profit with principles" approach
6. Marketing and building a brand through advocacy and public relations without advertising

Warm-up Questions

These questions could be prepared by the students before the class discussion.

1. *What factors contributed to the early success of The Body Shop?*
    - The Body Shop International was on the leading edge of creating a new market niche of skin and hair care products inspired by natural ingredients. First mover advantage.
    - Captured the concerns and interests of a segment of the baby boom market, that is conscious of social and environmental issues and expects companies to demonstrate social and environmental responsibility
    - Strong brand image created through unique products, campaigns, controversy and Anita Roddick as spokesperson for the company
    - Success in attracting the passion of managers, franchisees and staff who wanted to be "part of something bigger", a new experiment in socially responsible business
    - Success in expanding rapidly through international franchising and public stock offering

2. *What factors contributed to the company's challenges in the 1990s?*
    - Competition from copy-cat stores – especially in US markets
    - Complexity – until the mid-late 1990s BSI was vertically integrated and involved in manufacturing, distribution, branding and retailing in dozens of countries world wide.
    - Media challenges – attacks on TV and in print challenged BSI's claims not to be using any ingredients that were tested on animals at any time in the past, and also highlighted some conflicts with franchisees.
    - Lack of systems, formalized processes, planning and logistics. BSI had grown to a large integrated multinational company, but had been slow in developing the formalized management and planning systems and procedures that are required to manage aspects of the business.
    - Franchising system made it difficult to update stores and respond to competition and change
    - Failed round of restructuring
    - A shift from a stakeholder-focused strategy to a shareholder-focused strategy

Discussion Questions

3. *If you were in Gordon Roddick's position what would you do? Would you sell? If so, to whom?*

4. *Would you attempt another round of restructuring? If so, what would you need to do to arrest the company's decline?*

5. *If you think Gordon should take the company off the market and re-engineer the company for a later sale, what would you do to unlock the potential value in The Body Shop brand and boost profits and share price?*
    i. *What would you have to put in place?*
    ii. *How would you deal with the conflict between "creative" forces vs. "controlling/business" forces in organizational culture*
    iii. *What evidence would he have that Gordon could succeed this time when previous efforts have not worked?*

6. *What do you think about this approach? Should the creation of economic value for shareholders be prioritized over other stakeholders in order to rebuild the company, or do you think it is necessary to rebuild stakeholder relations at the same time as you try to boost profitability?*

7. *Is it possible to run a large international public company and maintain a corporate culture of creativity, entrepreneurship and spontaneity and values-base leadership? Is it possible to run a large complex multinational company in a way that can maximize value for all stakeholders?*

8. *Do you think the Body Shop International is a sustainable organization?*

Other teaching notes:

Students may notice paradoxical references to Shell in the case. On one hand The Body Shop International mounted a campaign against Shell in the early to mid 1990s criticizing their complicity with environmental and human rights abuses in Nigeria. On the other hand, in early 2002 Shell is mentioned as a 'titan' of corporate social and environmental responsibility along with The Body Shop International in the opinion of global CSR opinion leaders.

Another perhaps paradoxical event occurred a few months after the time the case was set. At the UN World Summit on Sustainable Development in Johannesburg, it was the Chairman of Shell, Mark Moody-Stuart (also chair of Business Action for Sustainable Development – the voice of business at WSSD) that was the spokesperson to launch the Body Shop International's campaign to promote the development and use of alternative and renewable sources of energy.

Those who have followed the case of Shell Nigeria and the Ogoni will recognize that between 1995 (with the execution of Nigerian human rights activist Ken Saro-Wiwa) and 2002, that Shell International has undergone a significant transformation, given the lessons it learned in Nigeria, as well as with the Brent Spar incident in 1995. Shell has subsequently revised its statements of business principles to recognize its obligation to uphold human rights within the sphere of its influence and has made significant commitments to pursue other practices and policies consistent with the principles of sustainable development.

Endnotes

[1] "Ethics Woman Seeks a Makeover". *Guardian*, June 8, 2001.

[2] "Texas Pacific joins Body Shop race" by Richard Fletcher and Damian Reece. Filed on November 2, 2001 on www.telegraph.co.uk.

[3] "Parabas prepares to snatch Body Shop" by Damian Reece. Filed on December 2, 2001 on www.telegraph.co.uk.

[4] "Lush to Make a Play for Body Shop". *Sunday Telegraph*, March 25, 2001.

[5] Many of the most logical potential trade buyers were contacted by the fifth potential bidder as part of their due diligence process.

[6] "Texas Pacific joins Body Shop race" by Richard Fletcher and Damian Reece. Filed on November 2, 2001 on www.telegraph.co.uk.

[7] The Body Shop Digital (a joint venture with SoftBank) and Botanicus ventures both ended in disappointment. In December 2000, The Body Shop International announced it would pay Softbank up to £4million to pull out of the internet joint venture company that was launched in May of that same year. In 1999, The Body Shop International acquired a 51% stake in Botanicus, a Czech retailer of herbal and hand crafted products, only to write off £5 million of its investment in 2002.

[8] The Body Shop International shares obtained a full listing on the London Stock Exchange in January 1986.

[9] Time, January 25, 1993. "Anita the Agitator" by Philip Elmer-Dewitt.

[10] *Fortune*, "Body Shop International: What Selling Will Be Like in the 90s" by Rahul Jacob. January 13, 1992.

[11] See *The Body Shop Book*, Macdonald Publishers Ltd. 1985, page 7.

[12] Life, November 1988 vol. 11, no. 13, p. 21. *The Entrepreneur: Anita Roddick*, by Lisa Distelhaim.

[13] Anita Roddick interview with Alan Middleton, May 8, 2001.

[14] David S. Steingard, Assistant Professor of Management, Erivan K. Haub School of Business, St. Joseph's University, Philadelphia.

[15] See *The 1997 Benchmark Survey: The third international progress report on company environmental reporting*, published by SustainAbility and UNEP, 1997.

[16] The Body Shop *Values Report 1997*, page 5.

[17] The Body Shop 1999 Annual Report, page 10.

[18] See http://www.thebodyshop.com/web/tbsgl/about.jsp [accessed July 8, 2003].

[19] Interview with Chris Coulter, Director CSR Monitor Survey, Environics International, May21, 2003. In a 2002 Environics Survey of corporate sustainability experts and opinion formers, The Body Shop ranked in the top 5 companies on two lists – companies perceived being both the most sustainable and companies perceived as being the most socially responsible.

[20] Michael Borromeo et al. *The Body Shop: Struggling Amidst a Changing Competitive Landscape*, December 6, 2001.

[21] The Economist, May 24, 2003. *Special report: The Beauty Business*, page, 69. In this analysis, hair-care products accounted for $38 billion; skin care $24 billion; make-up $18 billion; and perfumes, $15 billion.

[22] The Economist, May 24, 2003, p. 69.

[23] Ibid, p. 70.

[24] Anita Roddick, *Business as Unusual*, p.141

[25] Ibid, p.141

[26] See Anita Roddick, *Business as Unusual*, chapter 10.

[27] Interview with Stuart Rose, May 8, 2001.

[28] Between 1991 and 1998, The Body Shop International had no fewer than 8 heads of corporate communications and/or marketing: Jilly Forster, Robert Triefus, Gavin Grant, Gwen Gober, Adrian Hodges, Sandra Pickering and Marina Galanti.

[29] Anita Roddick's perspective on this process is explained in full in chapter 11 of her biography *Business as Unusual.*

[30] "Can the Body Shop Shape Up?" *Fortune*, April 15, 1996. Article by Charles P Wallace.

[31] See "Body Shop's Packaging Starts to Unravel", *Australian Financial Review*, December 18, 2002.

[32] See Anita Roddick's biography *Business as Unusual*, page ix.

[33] In theory, throughout the 1990s, the company's day to day management was in the hands of a group of 10-12 senior executives that met as a Management or Executive Committee (the name changed over time) under the chairmanship of the Managing Director (CEO). In practice, this group was often the recipient of both strategic and non-strategic decisions made by executive members of the Main Board, most of whom were not members of the Executive group.

[34] Edmund R Gray and Nancy Marcello, Green Companies: The Body Shop International. Loyola Marymount University, 2003.

[35] Between 1992 and 2001 dividends rose from 1.6 pence to 5.7 pence per share. As a result, when earnings per share were falling from 10.3 to 2.8 pence, payouts to shareholders increased from £3 million in 1992 to £11 million in 2001. At the same time, if short-term debt in taken into account, company debt increased from £57 to £104 million. The Roddicks themselves benefited from this policy, receiving £19 million in dividends between them from 1992 to 2001.

[36] The Body Shop *1997 Values Report*, sections 2 and 3.

[37] The Body Shop 1997 Values Report, page 61.

[38] "Has the Body Shop Lost It's Direction for Good?" *Marketing*, May 10, 2001, p. 19.

[39] Patrick Gournay interview, May 8, 2001.

[40] "*The Body Shop is now really a dysfunctional coffin*" Anita claimed at a speech during the Edinburgh Writers Festival on August 24, 2001. Reported in the *Sunday Herald (Scotland) on August 26, 2001.*

[41] Ben and Jerry's was bought by Unilever, a British-Dutch consumer-goods conglomerate with $43.7 billion in annual sales, in 2000. Ben & Jerry's founder Ben Cohen made about US $39 million from the sale that included guarantees from Unilever that Ben & Jerry's would continue as an independent entity and would continue contributing 7.5% of pretax profits to a charitable foundation. Nevertheless, the sale to Unilever was controversial among some Ben & Jerry's supporters who believe that the socially responsible ethic of the company will be lost when they are absorbed by a multinational corporation.