

## Case 1-3 The Body Shop International

*Business people have got to be the instigators of change. They have the money and the power to make a difference. A company that makes a profit from society has a responsibility to return something to that society.*

Anita Roddick, founder and managing director of The Body Shop

"Let's face it, I can't take a moisture cream too seriously," Anita Roddick was fond of saying. "What really interests me is the revolutionary way in which trade can be used as an instrument for change for the better." This heretical statement by the head of the fastest-growing company in the cosmetics industry reflected her habit of going against the tide of the industry's established practices.

The Body Shop did not advertise, avoided traditional distribution channels, spent as little as possible on packaging, and used product labels to describe ingredients rather than to make miraculous claims. Its products were based on all-natural ingredients, and were sold in refillable, recyclable containers. But the most unconventional of all, was The Body Shop's strong social message. As Roddick explained: "There hasn't been an ethical or philosophical code of behavior for any business body ever, and I think it's going to have to change."

From a single storefront in 1976, The Body Shop had grown to 576 shops by 1991, trading in

38 countries and 18 languages. Worldwide retail sales from company stores and licensees were estimated at \$391 million. Along the way, The Body Shop was voted U.K. Company of the Year in 1985, and U.K. Retailer of the Year in 1989. In addition, Roddick had been the Veuve Cliquot Businesswoman of the Year in 1985, and Communicator of the Year in 1987. In 1988, she was awarded the prestigious Order of the British Empire by Queen Elizabeth (who herself was rumored to use The Body Shop's Peppermint Foot Lotion).

But in the early 1990s, some began wondering if The Body Shop's phenomenal run of success was fading. Could its unconventional retailing approach succeed in the highly competitive U.S. market? Would its quirky organization and values be effective as it grew in size and scope? And could it survive the eventual departure of its founder?

### Anita Roddick: The Entrepreneur

*The world of business has taught me nothing. . . . I honestly believe I would not have succeeded if I had been taught about business.*

Anita Roddick

Born to Italian-immigrant parents, Roddick (née Perella) grew up working in the family-owned café in Littlehampton, West Sussex. Trained in education, she taught briefly in a local elementary school before accepting a position as a library researcher for the *International Herald Tribune* in Paris. Next, she moved to Geneva, where she joined the United Nations International Labor Organization to work with issues of Third World women's rights. With money saved, she traveled

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throughout the South Pacific and Africa, developing a fascination along the way for the simplicity and effectiveness of the beauty practices of the women she encountered.

Returning to England, she met Gordon Roddick, a Scots poet and adventurer who shared her love of travel. The birth of two daughters forced the Roddicks to settle down, and the couple decided to convert a Victorian house in Brighton into a hotel. In 1976, however, they sold their business so Gordon could fulfill a lifelong dream of riding on horseback from Buenos Aires to New York City—a journey that would take up to two years. Anita agreed to the plan (“Gordon never was a boring man”) and, at 33, undertook to support the family. She had an idea for a shop.

With a £4,000 bank loan (approximately \$6,000), Roddick developed a line of 25 skin and hair care products based on natural ingredients. Sourcing exotic ingredients like jojoba oil and rhassoul mud from a local herbalist, she prepared the first product batches on her kitchen stove and packaged them in the cheapest containers she could find—urine-sample bottles. Handwritten labels provided detailed information about the ingredients and their properties. A local art student designed her logo for £25. The Body Shop name—a tongue-in-cheek inspiration Anita took from auto repair shops she had seen in the United States—turned out to be a potential liability when she located her first shop in a small storefront near a funeral parlor. When her new neighbor’s lawyer threatened to sue unless she changed her shop’s name, Roddick took the story to the local newspaper. The curiosity inspired by the subsequent article assured that her first day of business, March 27, 1976, was an unqualified success.

Roddick gradually developed a loyal clientele. Some found the natural products less irritating to sensitive skin; others liked their novel aromas and textures; and many just enjoyed the relaxed, honest shop environment. As the sole employee, Anita formulated new products, ran the store, purchased supplies, kept the books, and constantly tried to draw attention to her business. (In one successful ruse, she sprinkled strawberry essence along the

street leading to her door, in an attempt to lure customers by the pleasing aroma.)

After a successful summer, Roddick exchanged a half share in her fledgling business for a £4,000 investment by a local businessman, funding the opening of a second store. In April 1977, when Gordon returned (his horse had died in the Andes), he hit upon the idea of franchising as a way to continue expansion despite limited capital. When the first two franchises in nearby towns both succeeded, the Roddicks began receiving calls from other interested parties. The business began to take off.

### *Founding Concepts and Practices*

From the beginning, the company was an extension of Anita Roddick’s personal philosophy and convictions. Although these were not formalized early on, her intense involvement in the growing organization shaped its operations. Yet she freely acknowledged she “didn’t have a clue about business matters,” and from the early days, Gordon managed the financial and administrative aspects.

Roddick’s first goal for the company was simple: survival. To make her original selection look larger, for example, she offered each product in five sizes—creating a choice much appreciated by her customers. Due to a cash flow that prevented her buying more bottles, she created a refill service at a 15% discount. This service subsequently appealed to a new generation of environmentally-conscious consumers. Detailed labeling information had originally been necessary because of the products’ unfamiliar ingredients, but later seemed totally in tune with a consumer awareness movement. Even the trademark Body Shop green color—now so politically correct—was chosen originally because it was most effective in concealing the damp that showed through the walls of the first store. Roddick recalled:

There was a grace we had when we started—the grace that you didn’t have to bullshit and tell lies. We didn’t know you could. We thought we had to be accountable. How do you establish accountability in a cosmetics business? We looked at the big companies. They put labels on the products. We



trimmed in dark green, with a black-and-white tiled floor. Neat stacks of black capped, green labeled plastic bottles lined wall shelves, their monotony broken by pyramids of brightly colored soap bars or displays of natural loofah back scrubbers, potpourri, and T-Shirts. Cards in front of each display offered information about products with simple and descriptive names like Orchid Oil Cleansing Milk, Carrot Moisture Cream, and Seaweed and Birch Shampoo. A self-service perfume bar featured natural oils that could be used either as perfume, or added as scents to a selection of non-perfumed lotions. The whole experience, in Roddick's vision, was designed to be "theater, pure and simple."

Products were priced more expensively than mass-merchandised cosmetics, but well under exclusive department store lines. Sales staff were trained to be friendly and knowledgeable but never overbearing. Stacks of pamphlets provided information on a range of topics, from "Hair, Who Needs It?" to "The Body Shop Approach to Packaging" or "Against Animal Testing." In one corner, a giant Product Information Manual described each product in detail. Noticeably lacking, for a cosmetics retail company, were any photographs of models with beautiful hair and perfect skin. Roddick was fond of saying that her concept of beauty was Mother Theresa not some bimbo: "There are no

magic potions, no miracle cures, no rejuvenating creams. Skin care products can do nothing more than cleanse, polish, and protect. That's it. End of story."

### The Body Shop Approach

*It turned out that my instinctive trading values were dramatically opposed to the standard practices in the cosmetics industry. I look at what they are doing and walk in the opposite direction.*

Anita Roddick

As she built her business, Roddick developed most of The Body Shop's unique operating practices and management policies to respond to opportunities she perceived. From product development to human resource management, The Body Shop had been described as "innovative," "daring," and even "radical." But there was no question it was successful. (See Exhibit 2.)

### Franchising

The company's explosive international growth was driven by its franchising program, and by early 1991 there were 586 shops worldwide (see Exhibit 3). Of these, only about 10% were company owned, but these served the important role of testing new products and marketing concepts, and sensing customer interests and trends. By appoint-

**EXHIBIT 2** The Body Shop Performance versus U.K. Industry Segment Standards (December 31, 1990)

	<i>The Body Shop</i>	<i>Industry* Lower Quartile</i>	<i>Industry Median</i>	<i>Industry Upper Quartile</i>
Return on capital	43.6%	3.1%	16.5%	41.2%
Return on total assets	20.2%	-.9%	6.8%	14.2%
Pretax profit margin	17.2%	0.0%	4.8%	10.5%
Sales/total assets	117.9%	111.8%	159.7%	192.9%
Average remuneration	£10,424.5	£6,740.7	£9,000.0	£12,269.2
Sales/employee	£66,782.6	£32,927.6	£50,483.9	£99,252.1

\*Industry comparison against U.K. Chemical Industries Manufacturing: Perfumes, Cosmetics and Toilet Preparations. Category includes perfumes, hair preparations, bath salts, shampoos, toothpastes, and other toilet preparations.



ing a head franchisee in each major national market, Roddick was able to concentrate on the development of new product lines and the company's global vision, rather than worry about the complexities of administration or personnel management. The franchise contract was for 5–10 years, and involved an investment of £150,000 to £250,000 (\$270,000–\$450,000). The start-up cost included shop fittings, opening day stock, a percentage of the location's rent (The Body Shop chose the sites and maintained the lease), and a licensing fee of between £5,000 and £25,000 (\$9,000 to \$45,000) for The Body Shop name. Typically, it took a franchisee two to three years to become profitable (see Exhibit 4).

Roddick felt that one reason why the cosmetics industry had become exploitive was that it was dominated by men who traded on women's fears. She felt business practices could be improved substantially "if they were guided by 'feminine principles'—like love and care and intuition," and openly acknowledged a preference for women as franchisees:

What is wonderful about the company is that 90% of the people running the shops are female, have no formal business training, and yet are brilliant retailers and brilliant business people. . . . This business is run by women. Policy decisions are made by women, all the words are written by women, product development is controlled by women. So our customer, our female customer, believes that we have a covert understanding of women. It gives us an extraordinary edge. It's The Body Shop's secret ingredient.

Anita Roddick kept strict control over the franchising process—no small task with over 5,000 applicants at any one time. The process, which involved a personality test, a home visit, and an assessment of the candidate's business acumen and attitude towards people and the environment, took as long as three years. Roddick liked to conduct the final interview, and was known for asking unexpected questions. ("How would you like to die?" "Who is your favorite heroine in literature?") Her objective was to ensure that The Body Shop image and the principles it was based on,

were not diluted through franchising. "We choose as franchisees only people who are passionate about our product and our ideas," she explained. Once selected, the candidate was required to undergo extensive training on product knowledge, merchandising, and store operations.

Cathy Stephensen was, in many ways, a typical franchisee. Selected from over 2,000 unsolicited inquiries from would-be franchisees in her large urban center, she had given up a secure, twenty-year career in financial and investment management in order to run a Body Shop. She reflected on her decision:

I was interested in issues of motivation, social responsibility, and particularly in the concept of a corporation that could do good as well as do it profitably. . . . I didn't have a list of franchise or business opportunities. It was The Body Shop or nothing. I think that was the case with a lot of franchisees.

I sense that the store does make a difference in people's lives, and I feel really good about that. . . . I don't think you become a Body Shop franchisee for the money. You do it because you believe in the principles. Somehow you think it will all work out alright in the end. That's very much the common profile [of Body Shop franchisees].

### *Product Development and Production*

Believing that the cosmetics industry had a lot to learn from the skin and hair care practices of women all over the world, Roddick spent two to four months of every year travelling to remote corners of the world, with an anthropologist. In Sri Lanka, she saw women rubbing their faces with the skins of freshly-cut pineapple, producing a fresh, clean look. Later, she learned that pineapple had an enzyme which acted to remove dead cells from the surface of the skin. This was translated into The Body Shop's Pineapple Face Wash. In the Polynesian islands, she saw women rubbing an untreated extract from the seeds of the cocoa plant into their hair to make it shine. Cocoa butter was then incorporated into a number of products, making The Body Shop one of the world's largest importers of this raw material. In Ghana, she discovered Shea-butter oil, a product extracted from an



**EXHIBIT 3** Worldwide Shop List (March 1991)

<i>Number of Shops</i>		<i>Shop Opened in</i>	<i>Year Opened</i>
Antigua	1	Belgium (Brussels)	1978
Australia	31		
Austria	5	Sweden (Stockholm)	1979
Bahamas	4	Greece (Athens)	
Bahrain	1		
Belgium	4	Canada (Toronto)	1980
Bermuda	1	Iceland (Reykjavik)	
Canada	87		
Cyprus	1	Denmark (Copenhagen)	1981
Denmark	5	Finland (Tampere)	
Eire	5	Eire (Dublin)	
Finland	11		
France	3	The Netherlands (Leiden)	1982
Germany	28	France (Paris)	
Gibraltar	1		
Grand Cayman	1	Australia (Melbourne)	1983
Greece	14	Cyprus (Limassol)	
Holland	23	Germany (Cologne)	
Hong Kong	7	Singapore	
Indonesia	1	Switzerland (Zurich)	
Italy	22	UAE (Dubai)	
Japan	1		
Malaysia (E)	3	Italy (Catania/Sicily)	
Malaysia (W)	7	Malaysia (Kuala Lumpur)	
Malta	1	Hong Kong (Tsjmshatsui/Kc)	1984
New Zealand	3		
Norway	13	Bahamas (Nassau)	1985
Oman	2	Bahrain (Manama)	
Portugal	5	Norway (Oslo)	
Qatar	1		
Saudi Arabia	6	Austria (Vienna)	1986
Singapore	6	Kuwait (Safat)	
Spain	17	Oman (Muscat)	
Sweden	30	Portugal (Lisbon)	
Switzerland	18	Spain (Madrid)	
Taiwan	3		
UAE	1	Antigua (St. John's)	1987
USA	39*	Saudi Arabia	
		Malta (Sliema)	
		Bermuda (Hamilton)	
Overseas total	412		
UK & Channel Isles	174†	USA (New York)	1988
Grand total	586	Gibraltar	
		Taiwan (Taipei)	
		New Zealand (Wellington)	1989
		Indonesia	1990
		Japan (Tokyo)	

Note: Number of countries we trade in: 38;  
Number of languages we trade in: 18.

\*Franchise 25, Company 14.

†Franchise 133, Company 41.



**EXHIBIT 4** Franchise Financial Projections, Year 1

Store sales	100.0%
Total cost of goods sold	55.8
Gross profit	44.2
Employee costs	23.6
General administration, marketing	16.4
Interest expense	2.7
Total expenses	42.7
Net income	1.5%

African tree nut; in Hawaii, she learned of anfelia concinna, a seaweed extract incorporated into her Seaweed and Birch Shampoo; in Japan, she picked up tsubaki oil, extracted from camellias.

Even back in England, Roddick would approach anyone, "from taxi drivers, to shop assistants, to your mother-in-law" to inquire about personal care habits. She wrote the chairman of Quaker Oats, in Chicago, to ask about the cosmetic properties of oatmeal. He sent her a formula for a protein extract which she discovered could be used in a range of products such as eye shadow and soap. After reading about huge stockpiles of powdered milk in U.K. warehouses, she telephoned the Milk Marketing Board for information, a conversation which resulted in The Body Shop's Milk Bath. Instead of market research, The Body Shop relied on direct customer ideas and feedback obtained through the widely used suggestion boxes located in each outlet, and six staff members cataloged and replied to ideas submitted.

Initially, product development had been driven by samples brought back in Anita's backpack, and the creativity of the herbalist she had worked with since the startup. Testing had been done on staff volunteers, and because ingredients had been used for centuries, risks were minimal. Eventually, the company employed an outside academic to test for toxicity and effectiveness, and finally, by 1990 established a formal research department. There was some debate about the extent to which The Body Shop's products were "natural," and the company acknowledged using some synthetic pre-

servatives, ingredients derived from petrochemicals, and artificial colors.

Although over 70% of Body Shop products were supplied by outside contractors, the company hoped to increase its in-house manufacturing from 30% to 50% by the early 1990s. Most of its production occurred in Wick, West Sussex, where the company had 320,000 square feet of production and warehouse space.

### Marketing

As a cosmetic retailer, The Body Shop defied most accepted marketing practices. In an industry where 30 cents on every dollar of sales was typically devoted to advertising, the company had no marketing or advertising department. It made no elaborate claims or promotions. And the products still packaged in plain plastic bottles were never "sale" priced. Said Roddick:

(The cosmetics industry) makes its money through packaging and advertising, which together are 85% of its costs. Charles Revlon, the founder of Revlon said, "In the factory we make cosmetics, in the store we sell hope." And he's right. The cosmetics industry is a dream machine.

Roddick recognized the value of publicity, however, and by 1980 had hired a PR consultant. She openly courted the press, and by her own estimate, generated £2 million worth of free publicity in a year. She was a natural for the role: "The press like us. I'm always available. I'm loud-mouthed and quotable."

Because the stores represented the company's primary marketing tool, Roddick used regular visits by regional managers to keep tight control over layout, literature, window displays, and operating style. The company's Write Stuff Department—five writers and six graphic designers—created The Body Shop's constantly changing brochures and displays. In 1990 when The Body Shop was nominated to the U.K. Marketing Hall of Fame, Roddick insisted her approach was only common sense:

The trouble with marketing is that consumers are hyped out. The din of advertising and promotion



has become so loud, they are becoming cynical about the whole process. What we have tried to do is establish credibility by educating our customers. . . . It humanizes the company, and makes customers feel they are buying from people they know and trust.

### **Organization and Human Resources**

As The Body Shop grew, so too did Roddick's recognition of the need to maintain the enthusiasm and commitment of her employees, 75% of whom were women under 30:

Most businesses focus all the time on profits, profits, profits. . . . I have to say I think that is deeply boring. I want to create an electricity and passion that bonds people to the company. You can educate people by their passions, especially young people. You have to find ways to grab their imagination. You want them to feel that they are doing something important. . . . I'd never get that kind of motivation if we were just selling shampoo and body lotion.

Roddick constantly worked at communications within the company. Every shop had a bulletin board, a fax machine, and a video player through which she bombarded staff with information on topics ranging from new products, or causes she supported, to reports on her latest trip or discussions of "dirty tricks in the cosmetics industry." The in-house video production company, produced a monthly multilingual video magazine, *Talking Shop*, as well as training tapes and documentaries on social campaigns.

Roddick also encouraged upward communication through a suggestion scheme to DODGI (the Department of Damned Good Ideas), through regular meetings of a cross section of staff, often at her home, and through a "Red Letter" system which allowed any employee to bypass management and communicate directly with a director. But she was equally aware of the power of informal communication, and unabashedly tapped into the grapevine by planting rumors with the office gossips. She explained the motivation behind her intensive communications:

What's imperative is the creation of a style that becomes a culture. It may be forced, it may be designed. But that real sense of change, that anarchy—I tell Gordon we need a Department of Surprises—we do whatever we must to preserve that sense of being different. Otherwise, the time will come when everyone who works for us will say The Body Shop is just like every other company.

Roddick took advantage of her travel to visit stores regularly. Appearing in jeans and carrying a knapsack, she typically told stories, joked about embarrassing moments in her travels, described new products or projects she was working on, and listened to employees' concerns. She encouraged employees to "think frivolously" and "break the rules," and tied bonuses to innovative suggestions. She also introduced a system of two-way assessment, asking staff to evaluate their managers' effectiveness. She detested bureaucracy and kept meetings short by requiring participants to stand through them. Roddick explained:

I tend to encourage separateness and eccentricity. . . . For me, the bottom line is keeping my company alive in the most imaginative, breathless, honest way I can. I don't think in all the years I've been running this business there has been one meeting, except for the end-of-year results, where profit has been mentioned.

Extending the family feeling, the company built a £1 million day care facility at its Littlehampton headquarters. The charge for this service was staggered by salary level and free day care slots were offered to social service organizations. In 1986, a training center in London began offering courses on the company's products and philosophy, problem hair and skin care, and customer service. Soon, however, there were sessions on topics as diverse as sociology, urban survival, aging, and AIDS. Any employee of the company or its franchisees could sign up, and all courses were free. "You can train dogs," explained Roddick. "We wanted to educate and help people realize their own potential."



### The Body Shop Philosophy

*All the Body Shops around the world form part of a whole that is held together by a common bond. It is underwritten by a common philosophy. This is the strong foundation on which a thriving and successful international company has been built.*

Anita Roddick

As The Body Shop became increasingly successful in a period often characterized as “The Decade of Greed,” Roddick kept pushing herself and others to define the appropriate role for their growing corporation. Going public did not seem to reduce the company’s quirkiness as some had predicted. Indeed Roddick seemed little concerned about the investment community’s view of The Body Shop, and routinely referred to investors in the stock as “speculators”:

Most are only interested in the short-term and quick profit; they don’t come to our annual meetings and they don’t respond to our communications. As far as I am concerned, I have no responsibility to these people at all.

Indeed, in her view, The Body Shop’s stock flotation marked a very different historic watershed:

Since 1984, the year The Body Shop went public, as far as I am concerned, the business has existed for one reason only—to allow us to use our success to act as a force of social change, to continue the education of our staff, to assist development in the Third World, and above all, to help protect the environment.

#### *Environmental Consciousness*

Long a critic of the environmental insensitivity of the cosmetics industry (“Its main products are packaging, garbage, and waste,” she claimed), Roddick found in this area a natural focus for her redoubled commitment to a social agenda. Within months of the public stock issue, she entered into an alliance with Greenpeace, and began campaigning through the shops to “save the whales.” The link was natural since several Body Shop products

were based on jojoba oil, a plant-based product that she argued could be substituted for the oil from sperm whales widely used in the cosmetics industry. When several franchisees expressed concern that the campaign was becoming “too political,” she dismissed their protests.

Within a couple of years, disagreements with Greenpeace led Roddick to switch her primary allegiance to Friends of the Earth, jointly promoting awareness campaigns on acid rain, recycling, and ozone layer depletion. Again, she turned over display windows to posters, and distributed literature through the shops. Simultaneously, she set up a four-person Environmental Projects Department not only to coordinate the campaigning, but also to ensure that the company’s own products and practices were environmentally sound. In addition to using biodegradable packaging and refilling 2 million containers annually, the company expanded its use of recycled paper, substituted reusable cases for cardboard shipping boxes, and offered refunds on returned packaging. It also banned smoking in all its offices and shops, and provided bicycles at low prices to over 350 headquarters employees.

Feeling frustrated with the bureaucracy of Friends of the Earth, in 1987 Roddick decided that The Body Shop should define and implement its own environmental and social campaigns. She enjoyed the freedom of being able to pick her own issues, and respond rapidly to crises.

#### *Community Activity*

About the same time, Roddick was looking for ways to become more active at the local level. As she put it, “We had to neutralize the corrupting effect of our wealth by taking positive steps to ensure we remained a humane and caring company.” She set up a Community Care Department and began talking to franchisees about having every shop commit to a local need, and supporting it by allowing staff time off to work on the project. Most responded positively, and soon shops worldwide were working with disabled centers, AIDS support groups, and homeless programs. But Rod-



dick still fretted that some were not imaginative enough, and some “malingerers” remained uninvolved:

If a shop didn't have a project and said, in effect, it didn't give a damn about the community, it was usually the franchisee speaking, not the staff. . . . If they absolutely refused to become involved, there was not much I could do—other than to make quite sure they did not get another shop.

As she launched into the social and environmental projects, Roddick became sensitive to some associated risks. First, she didn't want to make potential customers feel guilty or overwhelmed by the campaigning. Second, she saw a risk that staff could become so enamored with the causes that they neglected their “trading” role. But the biggest risk was that the company's motivations would be questioned. An article in *Marketing* noted: “There are times when Roddick's thirst for publicity seems almost insatiable. She has associated herself with every conscience-raising exercise from Third World development to a cheap condom campaign to curb the spread of AIDS.” Her response to such criticism varied from defensive to dismissive:

A poster to stop the burning of the rain forest creates a banner of values, it links us to the community, but it will not increase sales.

To cynics, altruism in business is disarming. But the bottom line is, you keep your staff—and good staff are hard to keep, especially in retail.

The absolute truth is that nothing of what we do is undertaken with an eye to our “image.” . . . If there is a single motivation for what we do, it is, in the words of Ralph Waldo Emerson, “to put love where our labor is.”

### *Trade Not Aid*

Her regular travels made Roddick acutely aware of the huge development needs that existed in the Third World; but her experience with the ILO in Geneva convinced her that aid programs were not the answer. In 1987, she launched a “Trade Not Aid” policy with the objective of “creating trade to help people in the Third World utilize their re-

sources to meet their own needs.” Eventually, she hoped to trade directly with those who grew or harvested all the raw ingredients The Body Shop used. By 1991 two major projects had been initiated.

During a visit to southern India in 1987, Roddick visited a group of farm communities set up by a British expatriate to train poor and homeless boys. Impressed, Roddick agreed to make Boys Town the primary supplier of Footsie Rollers—serrated pieces of acacia wood sold by The Body Shop as foot massagers. A price was calculated using first-world wage rates—four times the local norm. The boys were paid local wages, with the balance being deposited in a trust account for each worker to receive as he left to start an independent life at the age of 16. Retail profits from the Footsie Rollers funded the boys' healthcare and education.

Returning home, she raised the money required to open a new village, and in 1989 returned to India to set up The Body Shop Boys Town, with facilities to house and employ 85 boys. This led to other contracts to produce soap bags, woven baskets, Christmas cards, and silk-screened T-shirts. Over the next three years, The Body Shop proudly reported that 3,000 jobs were created as the impact of the programs spread into surrounding communities. By 1990, Roddick had plans to establish Boys Town Trusts in Mexico, Africa, and Thailand.

On a trip to Nepal, Roddick found entire villages unemployed as a result of a government limit on the harvest of the lokta shrub—the traditional source of material for their handmade paper. Seeing the possibility of setting up another Trade Not Aid project, she brought in an expert who found alternative sources of paper fiber—water hyacinth, banana tree fiber, and sugar cane. Roddick then committed The Body Shop to an order for bags, notebooks, and scented drawer liners that allowed a large family paper factory to convert to the new production. In June 1989, this company bought the land needed for another papermaking factory that employed 37 people. A portion of The Body Shop's profits were used to replant the area and another 10 percent went to the Nepal Women's Association.



thought what was printed on the label had to be truthful. I mean, we were really that naïve.

In addition to the products, Roddick also strove to create a unique environment in her stores—one of honesty, excitement, and fun. Rather than become overly sophisticated, she focused on the elements of what she called trading: "It's just buying and selling, with an added bit for me, which is the magical arena where people come together—that is, the shop," she said. "It's all just trading."

### ***Building on the Foundation***

The Body Shop experienced phenomenal growth through the 1980s, expanding sales at a rate of 50% yearly (see Exhibit 1). In April 1984, when

the stock was floated on London's Unlisted Securities market, it opened at 95 pence and closed that afternoon at 165 pence. In January 1986, when it obtained a full listing on the London Stock Exchange, the stock was selling at 820 pence and had become known as "the shares that defy gravity."<sup>1</sup> By February 1991, the company's market value stood at £350 million (\$591 million).

The products and the stores had also evolved, but had remained true to the original concepts. Entering a Body Shop anywhere in the world, the customer experienced brightly lit, open spaces,

<sup>1</sup>The Roddicks retained 30% of the equity, Ian McGlinn, the source of the original £4,000 investment, held another 30%, and an additional 7% had been distributed to franchisees.

**EXHIBIT 1** Key Financial Data for The Body Shop, 1984–1990 (in £000s)

	Year Ended					
	1984 9/30	1985 9/30	1986 9/30	1987 9/30	1989* 2/28	1990 2/28
Turnover	4,910	9,362	17,394	28,476	55,409	84,480
Of which:						
Overseas	20%	21%	22%	25%	25%	33%
United States					874	5,839
Profit before taxes	1,044	1,929	3,451	5,998	11,232	14,508
Dividends	75	150	300	605	1,439	1,558
Transferred to reserves	414	871	1,762	3,129	7,114	6,977
Tangible fixed assets	608	676	1,744	4,093	15,606	31,442
Net current assets	524	1,265	1,948	2,772	8,630	1,515
Long-term liabilities	(320)	(258)	(230)	(120)	(239)	(5,991)
Minority interests	—	—	(17)	(158)	(520)	(974)
Shareholders' funds	812	1,683	3,445	6,587	23,477	25,992
Weighted average number of shares (000s)	na	80,000	80,000	80,397	84,908	85,306
Number of outlets						
United Kingdom	45	66	77	89	112	139
Overseas	83	102	155	186	255	318
Total	128	168	232	275	367	457

\*Financial year changed. 1989 data reflects results from March 1, 1988, to February 1, 1989.

Source: Body Shop annual reports.



Some ventures, however, resulted in frustration, failure, and even occasional disillusionment. The Boys Town project, for example, ended in what Roddick described as "a cruel deception," with work being subcontracted to local sweatshops at a fraction of the price The Body Shop was paying. The contract was canceled and relationships severed. A textile project in Bangladesh and a sponge sourcing venture in Turkey were also aborted due to various supply problems. Yet Roddick remained committed to Trade Not Aid, and was pursuing projects in Somalia, Malaysia, the Philippines, and Kenya.

### *The Soapworks Project*

In 1989, Roddick turned the principles of her Trade Not Aid campaign to what she termed "Britain's own third world." A visit to the depressed Glasgow suburb of Easterhouse, a 55,000-person slum with 37% unemployment, resulted in the decision to locate a new 33,000-square-foot soap factory in the town, almost 400 miles from the company's other facilities. She explained:

It certainly would have been more conventional to set up the Soapworks factory near Littlehampton. But it's more fun, more motivating, and better for morale to do it here. It's not economic in terms of transport, but it's easier to inculcate our ideas here.

Eight months and £1 million later, Soapworks opened, staffed by 16 of the community's chronically unemployed. After two weeks training, they returned to Easterhouse on Littlehampton wages—a third higher than local rates. By 1991, the payroll had reached 100, and eventually Soapworks was expected to provide a third of The Body Shop's worldwide soap needs. Once the factory became profitable (expected in 1991), 25% of after-tax profits were to be placed in a charitable trust for the purpose of benefitting the community.

Although the project was highly praised by public officials and was widely reported by the press, a few Easterhouse residents felt that The Body Shop had a patronizing and even exploit-

ative attitude about Soapworks. When Roddick referred to the community as a location "where angels fear to tread," for example, one observer remarked, "To hear her speak . . . you might think The Body Shop was the only industrial employer in Easterhouse. But as you can see, her plant is on a small industrial estate surrounded by several busy factories." In typical fashion, Roddick's response was, "Cynics—up yours!" She hoped that she would inspire other firms worldwide to establish similar projects. In her view, "The Body Shop will have failed by 50% if we don't provide a role model for other companies."

### *Political Involvement*

In the late 1980s, The Body Shop's social and environmental activities became increasingly political. Although the company had long required suppliers to vouch that their ingredients had not been tested on animals in the past five years, in 1989 it escalated its activities in this area. In response to a 1989 EC draft directive proposing that all cosmetics be tested on animals, Roddick mounted a massive media blitz and began a petition in her shops. With 5 million supporting signatures, the petition was influential in the bill's eventual withdrawal.

Critics within the industry claimed that her cruelty-free platform was a marketing ploy. Indeed, they claimed that most base cosmetics ingredients—including many used by The Body Shop—had originally been tested on animals. Roddick responded:

Although we recognize that, realistically, most existing ingredients used in the cosmetics industry have been tested on animals by someone, somewhere, at sometime, we make sure that no animal testing is carried out by us or in our name.

Roddick's environmental concerns also became more political in nature as she became committed to the protection of the rain forests. After a visit to Brazil to attend a rally protesting the construction of a dam which would flood 15 million acres of rain forest, Roddick returned to England to take action. She held a franchisee meeting where she



raised £200,000, initiated a “Stop the Burning” poster campaign, and organized a petition which collected 1 million signatures in four weeks. Followed by a small media army, Roddick and 250 of her staff marched on the Brazilian Embassy in London and tried to deliver the sacks of protest letters to the ambassador. Several franchisees expressed concern about such high profile political activity, and one wondered if The Body Shop was going into the “rent-a-mob” business.

The Body Shop also began associating itself with several other organizations such as Amnesty International and FREEZE, the anti-nuclear weapons group. It was this latter campaign that finally brought a strong reaction from several franchisees who felt that Roddick should not be speaking for them on such issues.

My first reaction was “if you support nuclear weapons, what the hell are you doing in one of my shops?” . . . But then I realized I did not necessarily have the right to speak for The Body Shop on every issue. . . . I accepted that principle—and completely ignored it. I have never been able to separate Body Shop values from my own personal values.

### ***Profit with Principle***

Roddick acknowledged that she was on a mission to create “a new business paradigm”—one in which companies accepted the responsibility that came with their economic power and became engines of social change. To implement her vision, however, she recognized she had to overcome two major impediments. Externally, she rejected the pressures of shareholders and the financial community to focus companies on profits to the exclusion of other objectives:

The responsibility of business is not to create profits but to create live, vibrant, honorable organizations with real commitment to the community. . . . I certainly believe that companies should not be evaluated solely on their annual report and accounts.

Equally threatening to Roddick was the growing complacency among employees as The Body Shop became larger, more widespread and more successful:

What worries me now is that within the company there is an umbrella of corporate goodness which some people are hiding under, saying “I work for The Body Shop, therefore I am sincere, good, caring, humane, and so on.” It really depresses me. . . . We talk about being lean and green, but I can see a fat cat mentality creeping in: paper being wasted, lights left on after meetings. What it comes down to is arrogance.

### **The U.S. Market Challenge**

*It was Gordon's view that while the United States offered The Body Shop the greatest potential for growth, it also represented the greatest potential for disaster.*

Anita Roddick

In early 1991, observers wondered whether The Body Shop could maintain its phenomenal growth. They pointed to the fact that sales in the United Kingdom, which represented 67% of the company's total, had grown by only 1% after inflation and new store openings had been removed from the 1990 figures. Although the \$12 billion U.S. cosmetics market clearly represented the company's greatest growth opportunity, Gordon was particularly nervous about entering what had been described as “a graveyard for British retailers.”

### ***Entry into the U.S. Market***

In 1988, with over 200 stores in 33 countries, The Body Shop finally committed to a 50,000-square-foot production and warehouse facility in Morristown, New Jersey. Under the direction of a British expatriate, who was previously the president of Unilever's fragrance subsidiary, 12 company-owned shops were opened on the East Coast. Total investment exceeded £10 million. In mid-1990, the company began franchising, and by year's end, 37 shops had been opened. Anita Roddick explained the delay: “We wanted to wait for two years to see how we would do. . . . We don't advertise. We've never gone into shopping malls, and we were terrified of those. The question was, ‘Were we good enough?’ ” By 1990, U.S.



sales were £5.8 million, or 7% of total revenues. Due to the high cost of the initial infrastructure, however, the U.S. operations were still running at a loss.

### *Challenges of the U.S. Market*

Whether these initial losses would continue or indeed, whether stores remained open, depended on how the company dealt with a different set of challenges. First, environmental concern had been less of a public issue in the United States during the 1980s, and it was not certain that The Body Shop's strong image and unfamiliar practices would appeal to them. A 1990 Price Waterhouse report commented:

The link between common ideals and store loyalty is not yet proven. . . . Some customers may be willing to pay \$3.00 for a bar of soap, knowing that some of the money is going to a worthy cause. Others will be turned off to a company that uses its profits to support such a bold political agenda. The diversity of the U.S. market, in terms of consumer values and demand, and the vocal nature of dissident groups may make it difficult for The Body Shop to find a solid platform on which to build a business.

Roddick learned how difficult it was to transfer her values even within her organization. It was hard to recruit staff who embraced Body Shop values and could fit into what she called "our quirky, zany, organization." "I thought our values were global," she said, "and that our image and style were so strong that they would be easily transferrable across the Atlantic. I was wrong."

She was also amazed by how constrained business was in a country that epitomized the free enterprise system. The Food and Drug registrations, the various state and city regulations, and the lawyers' horror stories all made Roddick nervous about her decision. Under warnings about product liability and the likelihood of litigation, for example, she was advised not to offer a refill service in the United States. Lawyers also convinced her to drop her "Against Animal Testing"

logo on products for fear of retribution by the cosmetics industry. "They really put the frighteners on us," she said, "We felt we had to modify our trading practices drastically."

Furthermore, some experts questioned whether The Body Shop's resistance to advertising would limit growth in the communications-intensive U.S. market. Price Waterhouse calculated that The Body Shop's target of 1,500 shop openings by 1995 implied sales of \$685 million, equivalent to a 17% share of the top third of the cosmetics industry where it competed. Analysts predicted that this would be a difficult challenge without advertising. David Altschiller, chief executive of the New York advertising agency handling the \$10 million Liz Claiborne fragrance account, commented: "It's very hard to cultivate awareness and familiarity among consumers here without media advertising. Many highly successful European concepts have fizzled . . . when they're plunked down unadulterated in the American market." Roddick acknowledged, "There's no example of anyone doing what we're doing in America and making it work. . . . I think I have to become slightly more eccentric and slightly more theatrical to get my point across."

Finally, The Body Shop's global success had not gone unnoticed in the cosmetics industry. Betting that the "green consumer" population would continue to grow, many leading firms were introducing "natural" lines, and revamping the look and the marketing pitch of their products. Revlon was marketing New Age Naturals—a line of cosmetic products with names like Peppermint Skin Toner and Almond and Walnut Scrub. In 1990, Estée Lauder created Origins, a product line based on plant oils and extracts. It sold them in recycled (and recyclable) containers, and emphasized that no animal testing had been carried out on its ingredients within six years. Lauder planned to market this line in stand-alone stores, the first of which was scheduled to open in Cambridge, Massachusetts, in mid-1991. And Leslie Wexner, founder of the hugely successful retailer, The Limited, had opened 42 Bath and Body Works



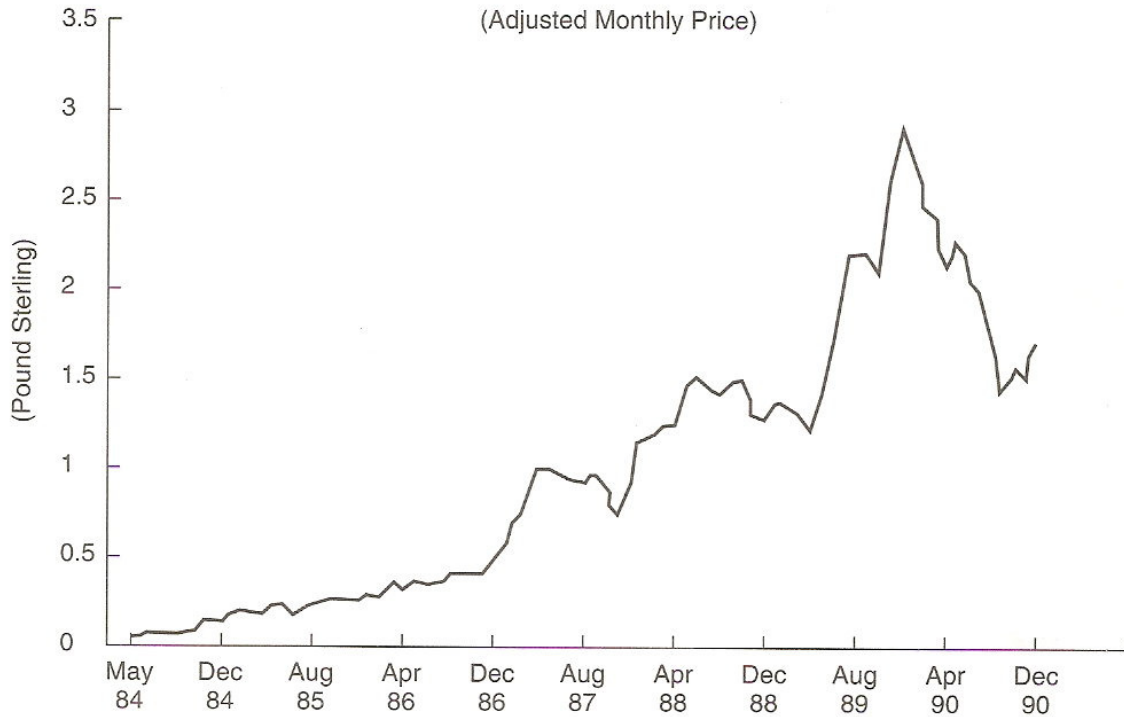
shops. *Business Week* reported that Roddick was so concerned about the shops which looked "astonishingly like Body Shops" that her lawyers were discussing the concern with The Limited. "People think we're a flaky New Age company," Roddick declared. "But my God, we defend ourselves like lions."

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As The Body Shop entered the 1990s, the price of "the shares that defy gravity" seemed to reflect

some of the uncertainty the company faced in its markets (see Exhibit 5). Some analysts felt that the company had outgrown its historical strategy, organization, and even its leadership. Could the company adequately defend itself against the wave of new competition without resorting to advertising, they wondered? Should it—indeed, could it—adjust its quirky and sometimes radical organizational and cultural values in response to the rising chorus of skeptics and cynics? And how would it survive the eventual change of leadership?

**EXHIBIT 5** The Body Shop's Stock Price Movement, 1984–1990 (in pounds)



Adjusted Six-Monthly Closing Price (adjusted for five 2-for-1 splits)

June 84	£0.058	June 87	£0.971	June 90	£2.11
Dec. 84	£0.143	Dec. 87	£0.865	Dec. 90	£1.80
June 85	£0.189	June 88	£1.526		
Dec. 85	£0.258	Dec. 88	£1.297		
June 86	£0.349	June 89	£1.780		
Dec. 86	£0.476	Dec. 89	£2.923		



At least the last question seemed to be one that concerned the Roddicks. Commented Anita:

Leadership of a company should encourage the next generation not just to follow, but to overtake. . . .  
The complaint Gordon and I have is that we are not being overtaken by our staff.

Announcing the 1990 results, Gordon added:

The thing we now have to do is reduce the dependence of the business on Anita and Gordon. You can either create a structure where the business is unable to do without you because you hang on to all the bits, or you can create a structure where they are pleased to see you, but they can do without you. That is our aim.

### **APPENDIX: The Body Shop: A Timeline of Key Events and Milestones**

- 1976 First shop opens in Brighton (March). Second shop opens in Chichester (November).
  - 1977 First franchises granted.
  - 1978 First franchisee outside the United Kingdom—in Belgium.
  - 1984 The Body Shop goes public on the U.K. unlisted securities market in April.
  - 1985 Anita Roddick selected as the Veuve Cliquot Business Woman of the Year.
  - 1986 SAVE THE WHALE campaign launched with Greenpeace.  
New £4 million headquarters and 320,000-square-foot warehouse and production facility opened.  
Environmental Projects department and Body Shop training school established.
  - 1987 FRIENDS OF THE EARTH campaign launched.  
Jacaranda, the company's own independent video company, is established.  
Named Company of the Year by the Confederation of British Industry (CBI).
  - 1988 Queen awards Anita Roddick the Order of the British Empire (OBE).  
The first U.S. branch of The Body Shop opens in New York.  
Soapworks, a 33,000-square-foot soap factory, opens in Easterhouse, Scotland.
  - 1989 The Body Shop is voted Retailer of the Year.  
"STOP THE BURNING" rainforest campaign launched.
  - 1990 AGAINST ANIMAL TESTING campaign is launched.  
The first Body Shop opens in Tokyo.  
Among many 1990 awards are the Queen's Award for Export, U.K. Hall of Fame Marketing Award, the Animalia Award for animal protection, the U.K. Environmental Management Award, the International Women's Forum Award, and the U.S. Environmental Protection Agency's Environmental Achievement Award.
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