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SOUTHERN METHODIST UNIV

*A Cost Analysis for Determining
the Optimal Method for an
Inventory Expansion*

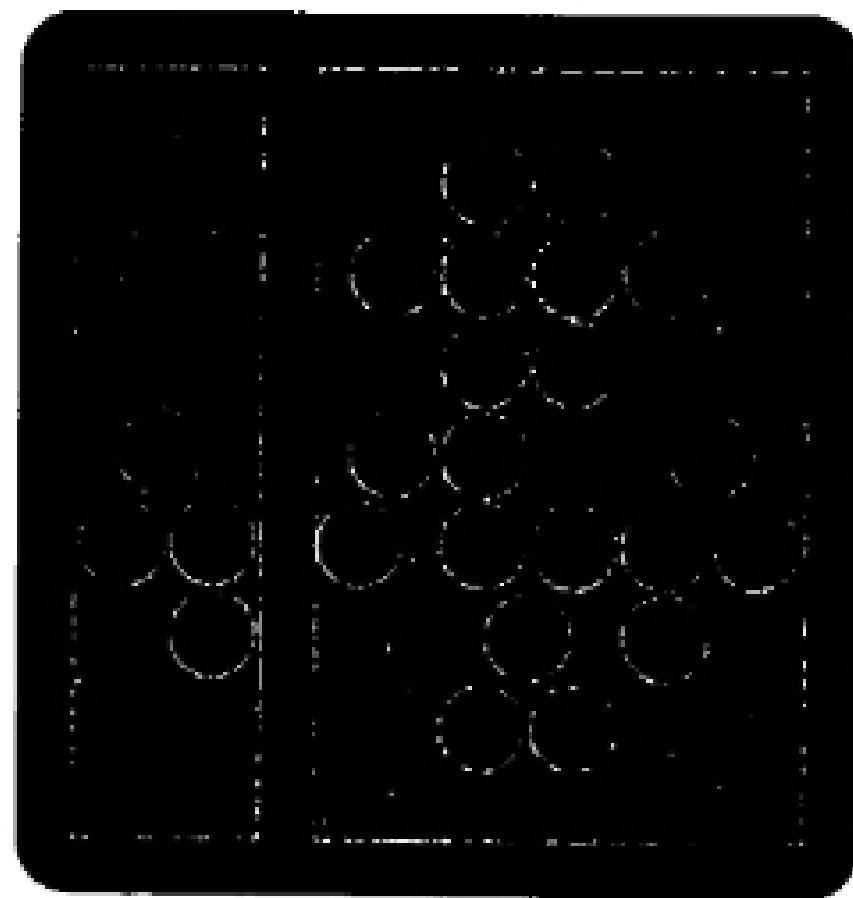
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MARYKAY COSMETICS

A Cost Analysis For Determining The
Optimal Method For An Inventory Expansion

OREM 4390

MAY 11, 1988



DEPARTMENT OF OPERATIONS RESEARCH AND ENGINEERING MANAGEMENT

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1) INTRODUCTION:

MaryKay Cosmetics is a Dallas based corporation involved in the development, manufacture, and distribution of an integrated line of cosmetics and accesories. Until the 1970's, MaryKay was a privately held company. The company became public in the latter part of the 70's in order to provide the capital necessary to support a forecasted growth rate of 30%+/yr in sales. The injection of new capital would provide the means by which all aspects of the corporation could grow and meet its potential. Most notably, the manufacturing capabilities would benefit the most in the form of increased production capacity. For several years after the public offering, the ~~the~~ corporation did extremely well. The counter-cyclical nature of MaryKay's sales with respect to the national economy dictated a tremendous growth in the sales force. Due to the dynamics of the two income family, and its reliance on two sources of income, a downturn in the national economy means a corresponding increase in unemployment. In order to compensate for any lost income during these times, families augment their income by either finding a new employer, or enhancing their existing income through alternate means. During these economic downturns, MaryKay ~~see's~~ a rise in sales force above their normal expectations derived from internal growth projections in direct proportion to the severity of the recession. The recessionary state of the national economy