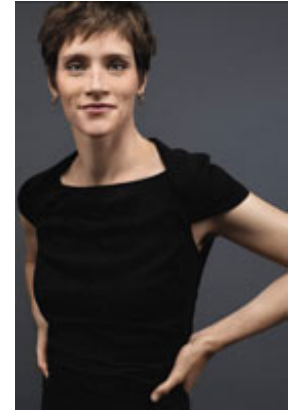




## MAC AIDS Fund's Nancy Mahon: Tying the Cause to the Brand

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Nancy Mahon doesn't consider herself a glamour girl, but she believes in the power of lipstick -- Viva Glam shades 5 and 6 in particular. Mahon is a senior vice president of MAC Cosmetics and executive director of the MAC AIDS fund, which last year donated \$20 million to programs in 57 countries, including South Africa, the Caribbean and the United States. The non-profit program makes MAC the third-largest corporate donor to AIDS-related causes, and is funded entirely by sales of MAC's Viva Glam lip products. Unlike other business philanthropy models, 100% of the \$14 suggested retail price tag for each lipstick goes to the AIDS fund -- even retailers are expected to forgo their margin, Mahon noted at a recent Wharton Leadership Lecture.



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She told students that it is important for a company not only to be good at business, but also to treat employees well, conduct business responsibly and behave as a good global citizen. "It's one thing to sell lipstick," Mahon said one associate told her. "It's another to sell lipstick and make a difference."

### MAC's Nancy Mahon: On the Frontline of the Fight Against AIDS

As consumer awareness of topics such as climate warming and sustainability practices grows, more corporations are developing social responsibility programs, she said. She encouraged students to take advantage of Wharton's Corporate Social Responsibility Initiative, and to ask about CSR programs during job interviews. "If employees ask for it, companies are going to do it," she said.

### Celebrity Power

When a company decides to create a corporate social responsibility (CSR) program, it should be for a cause that will mesh with the corporate brand, she said. MAC, which has its roots in theater and movie make-up (the name is an acronym for make-up arts cosmetics), began the foundation in 1994 when its two creators sat down with its eight employees and asked for funding ideas. "Our first Viva Glam spokesperson was RuPaul, a gay man of color and strength," she said. "We've had k.d. lang, Elton John, Mary J. Blige -- we can give to AIDS because this is what we stand for as a company."

The company chooses the Viva Glam celebrity faces based on their ties to the cause, Mahon said. So far, the biggest success in terms of sales has been former Baywatch star Pamela Anderson, in part because the actress was so open and honest, according to Mahon. "She got up and said, 'I have hepatitis.... No one should be ashamed of getting an illness.'"

Since the fund's inception, the company has given more than \$128 million to various AIDS-related projects, including \$4.5 million for a prevention and treatment initiative in the Caribbean, \$100,000 for a needle exchange program in Washington, D.C., and almost \$200,000 for a prevention and education project aimed at youth living along the Mexican border who are at increased risk of infection.

The commitment to the cause keeps the company's customers coming back for more MAC products -- and employees from leaving, said Mahon. "The average [employee] retention rate in the industry is 30% and we have an 80% retention rate," Mahon noted. "When they're asked why they stay, one of the top reasons is the AIDS fund." Customers, too, pay attention to the beliefs behind the corporation, she said, citing a study that found that EBay purchasers were willing to pay up to 8% more for an item if they believed in the cause the money supported. "Customers care that you do good in the world."

Estee Lauder bought 51% of MAC in 1995 and the remaining 49% three years later. Despite the current economic downturn, the company remains committed to the 100% rate of support for the fund. Although the bottom line of any business is making money, Mahon said that the fund is part of the company's DNA, and that everyone from the top offices that develop the products to the make-up artists who sell the line in the stores, wants to see the foundation succeed.

Part of the challenge of heading a non-profit in a for-profit business is straddling the line between making money for the company and expanding the foundation. One contrast: Mahon sits in on sales meetings where full reports on the previous week's sales can be discussed, but as she plans funding for her various projects she must use health data that is several years old.

### **Keeping an Eye on Sales**

"The bottom line is that our retailers give us back their margins -- when Macy's sells a Viva Glam product, they [return to us] all the money from Viva Glam so we can give it away." The fund is wholly dependent on Viva Glam sales, which means that any decline would have an adverse affect on it. The fund expects to give away \$20 million this year, on par with last year. Because the grants are distributed for the most part on a quarterly basis, the fund can react quickly if sales decline. "We keep a reserve of funds to ensure our grant commitments and ... [adjust] our giving based on sales," she said.

Mahon's biggest challenge is deciding which of the more than 1,000 grant proposals the fund will support. Sometimes the fund searches for areas that aren't covered by larger groups but will serve a population at high-risk for HIV and AIDS. Then it's up to Mahon to figure out what the foundation can afford to contribute and to make sure recipients use the money properly.

The foundation can also add certainty to its commitments by partnering with other philanthropies. Once the fund finds a program to support, it tries to bring in the Ford Foundation or the Rockefeller Foundation to invest as well, which is very different from typical corporate philanthropy, she said. "Corporations are not always good at partnering with [others]."

Despite the stumbling economy, Viva Glam sales have been steady this year, Mahon noted, ascribing that to customer loyalty rooted at least partly in the work of the foundation. But even if sales were to decline sharply as the current financial crisis spreads and deepens, Mahon predicted that MAC's commitment to the AIDS fund will not waver. "It's been a commitment since the beginning of the company and is integral to the business model and the philosophy of who we are," she said. Indeed, MAC uses in-store messaging to let consumers know about the impact they have when they buy a Viva Glam product. "We're looking at more store messaging, from the product to the cause and the cause to the impact. We're working with the [salespeople] so they understand and can talk to the customer about it ... directly."

Creating a truly product-focused CSR program is a challenge, added Mahon, who previously served as executive director of God's Love We Deliver, a New York City nonprofit that gives support to people with serious illnesses, and before that worked with George Soros's Open Society Institute. A close relationship between a company's products or services and the project, she advised, provides a funding stream with "more staying power. We're hitting a tough retail environment and if [the project] is an add-on program and there's a lot less money, that's the piece of the business that goes."

Mahon also suggested that products which support a specific project need to be out front and visible. "It has to be a core product," she says. "Lots of companies have a t-shirt or candle, or a counter item you can grab when you check-out.... People don't go into our stores for candles."

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