

An Executive Summary of the Speech by Eva Cheng, CEO of Greater China Region, Amway Corporation on “Managing Changes in China” at the Asian Symposium on Direct Selling, September 30, 2003

With China’s fast economic growth, its transition to a market economy, and the rudimentary legal framework supporting such a transition as backdrop, change is a constant. How to manage change--and seize opportunities for growth--is the core concern for any enterprise. The challenge for direct selling in China is illustrative. An industry that is accepted worldwide is put in the same category as pyramid fraud and is banned in China. Companies have to make changes to their operation in order to survive.

Although the Chinese government’s ban on direct selling issued in 1998 was not targeted at legitimate direct selling companies; although these companies are subsequently allowed to operate using a mode call “shop plus salesmen,” the ban had caused disruption to the operation of these companies. Furthermore, the legal and market environment here in China, which is so different from many overseas markets, prompted us to make significant changes to our mode of operation. Recognizing that China does have unique market and social circumstances, and knowing that the market has tremendous potential, Amway China made the following changes:

* **Open shops to service customers directly:** Amway China has opened 130 shops to date. At present two-third of the company’s sales to customers are processed through these shops, the rest being serviced through salesmen directly to the homes of customers. Aside from being an important sales channel, the shops also help increase transparency, strengthen consumer confidence in the company, and enhance image;

* **Made change to the traditional compensation system:** contrary to the traditional multi-level marketing model (where distributors can recruit other distributors, provide training and marketing services and receive compensation based on aggregate sales from the group), Amway China pays compensation to the salesmen based on their personal sales only, does not allow salesmen to recruit new salesmen, channelled experienced sales leaders to become either company employees or authorized agents who hold independent business licenses, and gear the focus of the sales force to retailing and customer servicing;

* **Establish the company’s strong leadership in all training efforts:** Amway China is not a mere product supplier or service provider. This clear and firm positioning helps to ensure proper discipline in the sales organization, and mitigate damages which can be created by self-guided training and motivation in the field. It also meets the government’s requirement that the company has to take responsibility for distributor conduct. Furthermore, the company has more direct supervision and control over the sales organization: contracts are signed between the company and every sales representative; ordering, returning goods are done directly between the company and every salesmen; bonuses are paid directly to each salesmen; the company is directly responsible for managing and training the sales force; and we require all training meetings to be approved by the company in advance;

* **Expand the word-of-mouth promotion approach to media advertisement:** we spent more than RMB 100 million on advertising in each of the past two years, use Olympics champion divers as spokespersons, do prime time ads using the CCTV, and other marketing promotional methods to build the Amway and the Nutrilite brands. Our diligence has paid off: in five years after we made change to our mode of operation, the company’s reputation stands tall, with a 77% favorability and 22% neutral rating in major cities in August 2003.

It is important to note that as we implement these changes, there are certain basic principles, which we do not change, principles such as pursuit of product excellence, protection for the consumers, focus on integrity, responsibility, and partnership. Based on these fundamentals, we are able to grow steadily year on year. Our sales for the year 2002 exceeded RMB 6 billion. We have established a strong customer base, built a very well-known brand, developed a professional sales force, and elevated the company's reputation in China. We believe these are solid foundation for long-term growth.