

## **"Amway China -- Growing in Cultural Cross Currents"**

**Eva Cheng's Speech delivered at  
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Ladies & Gentlemen,

Thank you very much for giving me the opportunity to address you this morning. What an honor! I still remember the first Asian Direct Selling Symposium which was successfully held in Hong Kong. I was also a speaker on China at that time, and now four years had flown by us. I'm thankful to the WFDSA and HKDSA for co-hosting the Asian Symposium again this year, giving us the opportunity to exchange information, share experience, promote common goals, and meet old and new friends. Perhaps we should commit ourselves to having an Asian Symposium at least once every three years instead of four.

Well, we're here this morning to discuss the status and prospects for Direct Selling in China. You have already heard insightful comments from many distinguished speakers this morning. I'm not sure how much more I could add by this time, but let me attempt to draw on Amway's experience in China over the past 15 years, and share a few thoughts and observations which will hopefully be useful information to you.

### ***Amway's Success:***

I'm frequently flattered by compliments of how well Amway China is doing. Indeed, with 2006 revenues of over US\$1.5 billion, just 11 years after we started selling in 1995, we have reasons to be pleased and happy. Amway China now ranks No. 41 in the Ministry of Commerce's List of Largest Foreign Invested Companies, and No. 69 in China State Tax Bureau's List of Top 100 Corporate Tax Payers. Today, Amway enjoys 100% name awareness and 80% favourability ratings in Beijing, Shanghai and Guangzhou, and Amway China had been on the list of Fortune China's Most Admired Multi-national Companies for four times, on China Business News Network's List of Top 10 Most Influential Multinationals in the last three consecutive years, and also on the List of The 10 Best Localized Multinationals in 2006.

Yes, we at Amway are thrilled with all these achievements; but then, I have to also tell you frankly that we have never had the urge to open champagne and celebrate. We see Amway's long term success going hand in hand with popular acceptance of Direct Selling in China. And we know too well that Direct Selling will have a secure and bright future only if the Chinese Government welcomes legitimate direct sellers with trusting open arms. From what I can see, the road ahead is still long and arduous. The rampage and chaos caused by pyramidal frauds past and present have left too big and too deep a scar in the country.

For global direct sellers who eye the China market with boiling interest, my friendly advice is to be patient. China has a long history tracing back to 5,000 years, and it has the world's largest

population living in a vast geography. The way China thinks and reacts to issues and challenges may seem incomprehensible to the outside world at times. To succeed in China, business operators must respect China's unique political-socio-economic conditions, and also acknowledge that cultural differences exist. My speech today is an account of how Amway China views what happened and manages to grow in rather tumultuous times by riding cultural cross currents in a calm, rational and sensible manner.

### ***Three Cultural Cross Currents:***

#### ***1. Innovation vs Tradition (创新与传统)***

The first cultural cross current that I'd like to talk about is how the East and the West looks at new ideas or the concept of change. If you will allow for my generalization here: Because Western culture originated from a maritime civilization where people were sea-faring, it tends to be open to taking risks, accepting changes and trying new ideas. Chinese culture, on the other hand, originated from a land civilization that's insulated. It holds ancestry and tradition in high esteem, values order and harmony, and tends to view new ideas and phenomena with great caution. We can contrast these values with terms like "Innovation" vs "Tradition".

When direct selling companies started operating in China in the 1990's, the idea of products being sold by independent salespeople on a person-to-person basis, not using wholesalers and retailers, and not advertising, was strange and mysterious. Add to this the fact that direct sellers were promoting their products and services through home parties, training meetings, spreading messages of financial independence and personal success, getting large crowds excited.....all these are very new and "foreign" to government officials indeed. But in true Open Door spirit, China gave it a try. In 1996, the government's overriding theme for governing Direct Selling is to experiment with caution, applying the four principles of "allow to exist, limit its growth, supervise closely, and pilot-test carefully."

Regrettably, the life span of pilot testing was short. In the absence of clear regulations which would help administrators and consumers to differentiate between good and bad, the Chinese government soon discovered that managing the industry is an almost impossible task. Not only were some of the government approved companies committing acts of fraud, but out in the market place, hundreds of pyramid scams had mushroomed to the point where millions of citizens, including farmers, were being defrauded. The Chinese Government decided in 1998 that there was enough chaos in the country that only a ban on all forms of Direct Selling could remedy the situation.

In Amway China, we could sense storm coming, but we had never anticipated that an outright ban could be imposed. We thought that if one man is sick and needs surgery, he alone should be taken to hospital, not everyone living in that same building! As an enterprise, Amway had invested over US\$100 million in China. We supported the need to eradicate pyramid fraud, tighten supervision on direct selling companies..... but we could not think of any reason which the government could use to justify a ban on a selling method. Well, the Directive issued by the State Council introducing the Ban was revealing: Among the many problems identified with chuan xiao, the Directive also highlighted the fact that the Chinese market was still at a

rudimentary stage, that government officials did not yet have the relevant expertise to supervise, that consumers were too immature and not able to defend themselves.....In short, China was saying that there may be nothing wrong with you as a company, but direct selling as a method of selling was "too advanced" and "ahead of its time", and China was not ready it.

The take home lesson for us in 1998 was that China is modernizing at its own tempo, not innovating without limits, not westernizing at all costs. In China, it's not impossible to see enterprises being asked to make changes or sacrifices for the greater interest of the nation. If we want China to make a change or accept a new idea, we cannot be too inward-focused and take things for granted. We must fully convince the government WHY what we do is good for their nation, their economy and their people.

## **2. Logic vs Sensibility (逻辑思维与感性思维)**

The second cultural cross current that I'd like to discuss has to do with the art of communication. Allow me to generalize again: Western culture believes in science and rationality, and sees things in either white or black, right or wrong. There's little ambiguity. Chinese culture focuses on the heart, following the "golden mean" (中庸之道) where there's no absolute right and wrong because all factors like time, place, background, etc need to be taken into consideration. We can term this difference as "Logic" vs "Sensibility". Looking back, it is this sensibility in the Chinese mindset that gave legitimate direct selling companies a leeway out of the 1998 Direct Selling Ban.

When the Ban was announced, a lot of people predicted doom for Amway because it meant that we would need to give up on our core competencies and disband our sales team altogether. At that critical juncture, Amway China did one thing right. Instead of crying and moaning, screaming and yelling, we called on our 30,000 active salespeople and 1,200 employees to stay calm, cooperative and rational (“不慌、不乱、不离、不弃”), and we went to the national government to ask for help. In our appeal, we reaffirmed our belief in China's Open Door Policy and asked with passion that legitimate foreign investment be protected. Perhaps evidence we gathered to prove our honorable intentions and responsible track record was truly convincing. Perhaps our appeal to sensibility and to the heart carried weight. Three months later, the government was gracious enough to offer a solution.

According to Chinese regulation at that time, Direct Selling was a marketing method which sold products in "non-fixed" locations. Amway offered to break with tradition and opened shops which would sell products directly to walk-in customers. Meantime, the government agreed that in places where Amway had shop presence, Amway could have salesmen that sell directly to consumers on a person-to-person basis. Amway complied, and in the years that followed, we have 189 shops operating in 156 cities to directly service sales agents and customers, an action which heavily increased our operating costs, but which subsequently also proved to have greatly increased our transparency and strengthened our reputation. This special "shops + salesmen" operating status was granted to 10 foreign companies affected by the Ban.

Getting special approval to relaunch business is one thing, but privileged status is no guarantee for smooth sailing. In subsequent years, as pyramid scams continued to prevail, the government

had to issue more and more restrictive regulations on companies which use independent salesmen to sell products. From 1998 to 2005, Amway China revised its sales and marketing plans four times to meet changing regulatory requirements, and voluntarily stopped recruiting new salespeople five times, adding up to 27 months, so as to size down our sales team and intensify training on our salespeople.

What's our take home lesson here? It's this: Never confuse administrative victories with genuine business accomplishments. Be prepared for new surprises but never feel disheartened. Chinese officials consider Law (法) as overriding, but Reason (理) and Consideration (情) also have their roles to play. When we have to ask for anything from the government, don't spend time arguing what's wrong with government policy or system. Explain to officials clearly why what we want is good for China. Help the government solve our problems by finding legitimate and practical solutions that fit their regulatory and cultural context.

### 3. Action vs Consideration (行动优先与三思后行)

The third cultural cross current that I'd like to cover relates to the speed of doing things. Do you agree that generally speaking: the Western culture is action oriented, makes bold assumptions, takes fast actions; and when the outcome is failure, westerners will comfort themselves and say "We learnt a lesson!" The Eastern culture, on the other hand, is much more cautious, thinks thrice before action and therefore, has a tendency to complicate simple matters. We can term this difference as "Action" vs "Consideration".

Looking back, it has taken the Chinese government 8 years to move from "limited development" of direct selling in 1997 (允许存在, 限制发展, 严格管理, 谨慎试点) to "graduated development" in 2005. (正确引导、趋利避害、稳步开放、规范发展). Look at where are we with Direct Selling in China today. The Direct Selling Regulation & Pyramid Prohibition Regulation passed in September 2005 shocked global direct sellers with its extreme stringency. To apply for a China Direct Selling license, the required minimum initial investment is US\$10 million; minimum bond placement is US\$2.5 million; compensation for salesmen must not exceed 30% of personal sales; trainers must be university graduates and on the company's payroll; no team based bonus allowed, etc.....The Regulation also stated in explicit terms that national security, public order and social benefit must be carefully considered before a licence would be granted. All this means that the Chinese government remains extremely concerned about the development of direct selling in China.

Many of my overseas friends asked why the development process of Direct Selling had taken so long, and so slow. But was the process long or short? Fast or slow? From China's angle, I have the feeling that they consider this speed to be about right. Given the government's obsession with social stability, and extreme concerns over the economic and social problems caused by pyramid frauds, the passage of a Direct Selling Regulation and a Pyramid Prohibition Regulation in 2005 could be viewed as "a major step forward" already. I love to remind my American friends to think in terms of China's time dimension. The USA has a history of only 230 years, 10 years is a long long time in the American mindset. China has recorded history of over 5,000 years. 10 years is just a moment in China's river of time!

Many overseas direct sellers are interested in knowing when China would relax its regulations on direct selling. I'm in no position to speculate, but my experience tells me that we need to take a long term view when operating in China. There's an evolutionary process in the development of laws and regulations in China, and I believe the same will hold true for Direct Selling in China. Patience and persistence are the two key words to bear in mind. I also believe that if all China approved direct selling companies conduct their operations in a responsible fashion, and work more closely as a team, we will be able to earn a great degree of trust and respect from the government; and building on that foundation, we should be able to more effectively convince the government to liberalize its regulatory regime for Direct Selling, allowing us all greater room for growth and success.

### **Conclusion**

That brings me to the conclusion of my speech this morning. 20 years ago, foreigners went into China to transfer skills, technology, know-how. As China strengthens, our expertise are becoming increasingly marginalized. Nowadays, the Chinese government understands the outside world much more than the outside world understands them. It's important for foreign companies operating in China to acknowledge cultural differences, and respect China with all its potential, peculiarities, traditions. In our first 12 years of sales operation, Amway China has learnt to take every sudden twist and turn calmly, to be respectful of local tradition and customs, to be compliant of relevant laws and regulations, and to undertake modifications in our sales approaches so as to promote harmony and fusion with the Chinese culture. In doing so, we have succeeded to grow and prosper. We believe that the same will hold true for your company. Please accept my Very Best Wishes for Success in your China Direct Selling ventures!

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