

学校编码: 10384      分类号 \_\_\_\_\_ 密级 \_\_\_\_\_

学号: 15220081153717      UDC

厦 门 大 学

硕 士 学 位 论 文

中国直销和多层次营销战略

Direct Selling in China And Its Multi-level  
Strategy

Kingsley Ennis

指导教师姓名: 许 文 彬

专业名称: 中 国 经 济

论文提交日期: 2010 年 4 月

论文答辩日期: 2010 年 5 月

学位授予日期: 2010 年 月

答辩委员会主席:

评 阅 人:

2010 年 4 月

# 厦门大学学位论文原创性声明

本人呈交的学位论文是本人在导师指导下,独立完成的研究成果。本人在论文写作中参考其他个人或集体已经发表的研究成果,均在文中以适当方式明确标明,并符合法律规范和《厦门大学研究生学术活动规范(试行)》。

另外,该学位论文为( )课题(组)的研究成果,获得( )课题(组)经费或实验室的资助,在( )实验室完成。(请在以上括号内填写课题或课题组负责人或实验室名称,未有此项声明内容的,可以不作特别声明。)

Your

声明人(签名):

年 月 日

# 厦门大学学位论文著作权使用声明

本人同意厦门大学根据《中华人民共和国学位条例暂行实施办法》等规定保留和使用此学位论文，并向主管部门或其指定机构送交学位论文（包括纸质版和电子版），允许学位论文进入厦门大学图书馆及其数据库被查阅、借阅。本人同意厦门大学将学位论文加入全国博士、硕士学位论文共建单位数据库进行检索，将学位论文的标题和摘要汇编出版，采用影印、缩印或者其它方式合理复制学位论文。

本学位论文属于：

1. 经厦门大学保密委员会审查核定的保密学位论文，于 年 月 日解密，解密后适用上述授权。

2. 不保密，适用上述授权。

（请在以上相应括号内打“√”或填上相应内容。保密学位论文应是已经厦门大学保密委员会审定过的学位论文，未经厦门大学保密委员会审定的学位论文均为公开学位论文。此声明栏不填写的，默认为公开学位论文，均适用上述授权。）

声明人（签名）：

Your

年 月 日

## Table of Contents

Abstract.....	2
About the Author .....	3
Chapter 1 - Introduction.....	4
1.1. Background.....	4
1.2. Definitions of Direct Selling and Multi-level Marketing .....	5
1.3. A Brief History .....	6
1.4. Review on relevant studies - The cases of Avon and Amway.....	8
Chapter 2 – Theory: Potential impact of direct selling on China’s economy .....	12
2.1. Direct sales compensation plans – financial perspective .....	12
2.2. Direct sales compensation plans – interpersonal perspective .....	17
2.3. Direct selling compensations plans – impact on China.....	19
Chapter 3 – China’s new direct selling regulations in practice.....	20
3.1. Multi-level Marketing in China.....	20
3.2. New Policy on Direct Selling .....	21
3.2.1. The New Direct Sales Business Model.....	22
3.2.2. The Adaption to the New Regulation .....	24
Chapter 4 - China’s Reforming Economy.....	26
Chapter 5 – MLM’s Future in China .....	33
5.1. MLM’s Future in China .....	33
5.1.1. Identifying Obstacles.....	35
5.1.2. Overcoming Obstacles .....	36
5.1.3. Future Predictions .....	38
5.1.4. Suggested Strategies .....	40
Chapter 6 - Conclusion .....	42
Appendix.....	44
References.....	49
Acknowledgements.....	50

## 摘要

本文回顾了直销的一种特殊形式——多层次营销——的变革，以及在当代中国（1985年以后）所扮演的角色。进入 21 世纪后，直销在中国呈现上升趋势。但另一个方面，在同一时期，随着失业率的上升，某些不法机构利用直销的成功参与不道德的“金字塔营销”阴谋，给社会经济秩序和消费者利益造成极大的损失。有鉴于此，中国政府对直销采取了严厉的措施，包括严格禁止以及一些限制措施。

为了探索直销的变革和特征，本文不仅回顾了直销在中国的发展历史，同时也分析了直销的现状和未来趋势，政府新措施以及由新措施而带来的新的商业模式。本文还特别研究了安利和雅芳在中国市场的发展状况，因为这两个企业是世界直销领域的翘楚。

**关键词：**中国直销；中国多层次营销；政府政策和限制

## **Abstract**

The paper examines the evolution and role of a particular type of direct selling known as multi-level marketing in modern China (from 1985 onward). As the world was getting ready to enter the 21<sup>st</sup> century, direct selling in China was seeing record success rates. On the downside, over the same period of time, the rising unemployment encouraged unscrupulous agents to take advantage of this success to engage in fraudulent pyramidal schemes that caused considerable economic damage to consumers. Consequently, the government adopted tough regulations on direct selling, ranging from a complete ban on these activities to imposing a number of costly and time consuming restrictions.

To explore the evolution and role of multi level marketing in China this paper analyses not only the history of direct selling in the country, but also its current and expected status, new government policies and the new business models resulting from these policies and the particular studies of Amway and Avon in the Chinese market, these two companies being the global icons of direct selling.

**Keywords:** China direct selling, China multi-level marketing, Government Policy and Regulation

## About the Author

Kingsley Ennis is the author of the network marketing industry audio series “Split Second Marketing” & “Your Extreme Advantage”. It can be accessed at [www.usahomebusinessexperts.com](http://www.usahomebusinessexperts.com) or [www.youextremeadvantage.com](http://www.youextremeadvantage.com). Kingsley has been a consultant to the network marketing industry for over 8 years and a student and participant for over 13 years. Kingsley has built downline organizations into the tens of thousands of distributors with several different companies in Australia and the USA. Kingsley is a popular convention speaker and trainer.

Of note USANA Health Sciences a Utah, USA based Direct Selling Company (NASDAQ: USNA) awarded him Worldwide Distributor of the Month in 1999 & Third Ranking Achiever in the company’s Worldwide Top Income Categories for Emerald Directors in 2000.

In anticipation of a ruling change to China’s Direct Selling law Kingsley moved to China in 2004. The ruling did not go in the required direction so for 5 years he became a Lecturer Teaching at several Universities, as well as pursuing studies in China’s emerging economy with a keen focus on Direct Selling as well as travelling extensively within China and the USA as a consultant. Kingsley is the moderator of the global online network marketing community website [www.directsellingchina.com](http://www.directsellingchina.com).

Kingsley recently launched a new network marketing company. YOLI Inc located in Salt Lake City, Utah distributes nutritious beverages using patented BlastCap™ Technology. Kingsley had already achieved the Highest Ranking of Founding Triple Diamond Distributor at the company opening in November 2009. He is one of only 9 to achieve this rank out of 8000 distributors.

In the November 2009 vol. 13/issue 11 of Home Business Connection magazine (a widely circulated USA based publication) a feature story was written on Kingsley, it said “*Kingsley Ennis removes the hype to reveal the truth about what will really make you successful in a home business.*” (see appendix section – Home Business Connection article)

## **Chapter 1 - Introduction**

### *1.1. Background*

Early direct sellers are part of an ancient tradition that originated in man's basic need to exchange goods and to communicate. Doorbells, catalogues and purchase orders were centuries away from the early direct seller who relied on his instincts and common sense to make a living through selling.

Nearly every culture shares a heritage of direct selling. The direct seller of tropical Africa walked the streets of cities and towns crying out his wares. Some cycled from village to village. "Colporteurs" of France sold flowers directly to their customers and used purchase orders as early as the 14th century. The Chinese direct seller sold, bought, exchanged, mended, entertained and catered to personal wants of man in almost every conceivable way. European gypsies, after immigrating to America, practiced their native trade of direct selling in their new land. They brought the direct selling tradition from England, Scotland, Ireland, Germany and Hungary to Colonial America and took to tinkering, peddling and horse dealing.

The selling tradition continued to thrive through the end of the 19th century and into the 1900s. The advent of the home party in the 1950s added a new dimension to direct selling as customers gathered at the home of hostesses to see product demonstrations and socialize with friends. Direct selling offered opportunities for many who had previously run into barriers because of age, education or sex. The growth of the industry allowed many to become successful where no opportunity has existed before.



The succeeding sections of this paper show the evolution of direct selling system in China, how it affected millions of people, which company started it, The multi-level marketing (MLM) strategy and its future, the roller-coaster ride of two of the major direct sellers in the country, as well as the new regulations that must be adapted by companies in order to continue direct selling business in this one of the world's largest markets. First, it is important to differentiate direct selling and the MLM with their definitions and business strategies.

### *1.2. Definitions of Direct Selling and Multi-level Marketing*

Direct selling is a retail channel for the distribution of goods and services. At a basic level it may be defined as marketing and selling products, direct to consumers away from a fixed retail location. Sales are typically made through party plan, one to one demonstrations, and other personal contact arrangements. According to the World Federation of Direct Selling Associations (WFDSA), consumers benefit from direct selling because of the convenience and service it provides, including personal demonstration and explanation of products, home delivery, and generous satisfaction guarantees. In contrast to franchising, the cost for an individual to start an independent direct selling business is typically very low with little or no required inventory or other cash commitments to begin.

Most direct selling associations require their members to abide by a code of conduct towards a fair partnership both with customers and salesmen. Most national direct selling associations are represented in the WFDSA.

Direct Selling is distinct from Direct Marketing because it is about individual sales agents reaching and dealing directly with clients. Direct Marketing is about business organizations seeking a relationship with their customers without going through an agent/consultant or retail outlet.

On the other hand, MLM is a sub-set of the "Direct Sales" method of marketing products to end consumers, in which salespeople are paid not only on their own personal sales, but also on the sales of other salespeople whom they recruit and train through up-line and down-line relationships. The products and company are usually marketed directly to consumers and potential business partners by means of relationship referrals and word of mouth marketing.

Independent, unsalaried salespeople of MLM, referred to as distributors (or associates, independent business owners, dealers, franchise owners, sales consultants, consultants, independent agents, etc.), represent the parent company and are awarded a commission based upon the volume of product sold through each of their independent businesses.

Because firms pay very little to market the product until after a participating distributor has already sold the product, this form of marketing requires relatively little overhead investment for marketing costs, which can then be paid to distributors and the "up-line" and products can be more easily sold at a higher retail price because the salesperson is much more committed than a salesperson on wages to sell the product. It has proven to be a very effective method of rapid market penetration.

### *1.3. A Brief History*

Since 1985, when Avon was the first direct selling company to enter the Chinese market, the U.S. direct selling industry has had an excellent record of economic and social contributions to the Chinese economy. Several more U.S. direct selling companies including Amway, Mary Kay, Nu Skin, Sara Lee, Sunrider and Tupperware entered the Chinese market making direct investments in manufacturing facilities that totalled over \$250 million. Sales in the market increased steadily and DSA estimated that retail sales for U.S. companies in 1997 approached \$1 billion and that direct selling companies provided significant income earning opportunities to more than two

million Chinese salespeople. The direct investment and earnings made by U.S. direct selling companies in China and by thousands of individual U.S. distributors across the nation positively benefited the U.S. economy as well by generating exports of U.S. capital goods and creating U.S. employment opportunities associated with global expansion.

At the same time, the success of direct selling companies in China combined with rising unemployment attracted some unscrupulous pyramid scheme operators, which disguised their fraudulent practices as direct selling firms. In other words, direct selling, due to its natural flaws and the immaturity of China's market and its consumers, was once taken advantage of by swindlers, resulting in illegal pyramid selling. And in fact unethical companies and wildfire sales schemes in which too many people were promised too much caused considerable economic damage to consumers.

In response, in January 1997 the Chinese government issued Order No. 73 regulating and restricting direct selling company activities. In April 1998 this tightening of the regulatory environment was followed by a complete ban on direct selling saying it was hard to differentiate direct sales from so called pyramid sales, which had led to widespread fraud, consumer losses and social disorder. Millions of people, including many university students, got embroiled in criminal activities carried out under the guise of direct sales. The ban was later modified in late June 1998 with "conversion regulations" to allow some foreign-owned direct selling companies to resume operations under a modified sales structure. During the period preceding and leading up to the ban in China, direct selling companies operations slowed down until conversion regulations were introduced, resulting in approximate losses of \$200 million. In addition, under the current regulatory structure in China, no additional direct selling companies were able to enter the market as direct sellers.

Later that year, after the central government announced the ban, it allowed 10 foreign companies to carry out direct sales, but they had to change their sales mode to selling goods through retail outlets or stores and non-employee sales representatives, and on the condition that all sales agents belong to a particular branch and that their names be available to the authorities. The companies usually sell without fixed outlets, but the transition has been successful and they achieved quick growth rates in China.

In the first quarter of 2004, a regulation governing foreign-funded direct selling companies was confirmed by Deng Zhan, deputy director-general of the Foreign Investment Administration in the Chinese Ministry of Commerce (MOFCOM)<sup>1</sup>, when he addressed a US-China Business Dialogue conference. The once disputed business of direct selling in China was assumed to be properly regulated and relevant regulations was expected to be in place. Direct selling is to be strictly distinguished from the notorious pyramid selling schemes. Illegal pyramid selling will face a serious crackdown while legitimate direct selling companies from home and abroad will receive encouragement and support from the Chinese Government (Deng 2004). Eventually, the State Council, China's cabinet, approved such regulation governing direct sales in October 2005.

#### *1.4. Review on relevant studies - The cases of Avon and Amway*

##### Avon<sup>2</sup>

Avon entered China in 1990 and was the first international direct selling company to open doors there.

---

<sup>1</sup> Formerly **Ministry of Foreign Trade and Economic Co-operation** (MOFTEC) is an executive agency of the State Council of China. It is responsible for formulating policy on foreign trade, export and import regulations, foreign direct investments, consumer protection, market competition and negotiating bilateral and multilateral trade agreements.

<sup>2</sup> Avon's fastest growing markets today are in China and Russia. Avon's product lines include lipstick, foundation, bath and skin lotions, anti-aging cream, perfumes, as well as jewelry and clothing.

With its production centre based in the capital of south China's Guangdong Province, Avon has opened a broad retail distribution network with 6,300 independent beauty boutiques and over 1,000 cosmetic parlours in department stores across China. In 1998, Avon was affected by the ban on all direct selling in China. However, in June of the same year, Avon was relicensed to start selling products in the local market. China still didn't allow door-to-door selling, so Avon opened small stores called "beauty boutiques" and put its brand on shelves at beauty counters at local department stores.

With China's new regulations governing direct sales effective Dec. 1, 2005, Avon was said to be the first to match the requirements, which demand companies have a record of law-abiding, direct sales experience in foreign countries, registered capital of no less than 80 million Yuan in China and a company information disclosure mechanism. Avon's licensing arrangement allows it to hire independent promoters to sell products directly to consumers. Avon had received permission from the Chinese government to run pilot door-to-door selling campaign in the cities of Beijing and Tianjin and Guangdong Province on April 8, 2005. The company has recruited a team of some 300,000 licensed door-to-door salespeople in China in December 2006 and has complied with 95 percent of China's new direct sales rules. Its network of some 6,000 boutiques in China shrank to 5,400, as it shifts to its more traditional business of door-to-door sales.

#### Amway Inc.

Amway, Inc. is a distribution giant that expanded to Mainland China in April 1995. Founded in 1959 in Ada, Michigan in the United States, Amway is one of the largest direct selling companies worldwide. What started out as a basement business selling health supplements in 1959 is now a multi-billion dollar company, employing three million people in 80 countries around the globe. It carries five major product areas under its wings including personal and home

care, food supplement, cosmetics and cooking wares and has captured a big market interest even in the most traditional countries like China.

Their entrance into the Chinese market has earned big profits, with more potential to grow. In just three years of sales in China, Amway earned over \$178 million in sales. On April 21, 1998, the issuance of the immediate ban on direct marketing threatened a multi-million-dollar market for Amway and other potential direct marketing companies. Chinese government officials claim the ban was absolutely necessary because the direct-selling operations functioned as a base for criminal activity. Amway's direct-selling techniques scared Chinese officials for fears of spreading heretical religion and the start of secret societies. But Amway was forced to revise their business plans to only sell products in retail outlets, not through direct-selling. These new guidelines are very different from Amway's selling technique, which is based on Amway's pyramid building and selling system. After proper negotiations, Amway continued to operate through a network of retail stores promoted by an independent sales force. China introduced new direct selling laws in December 2005, and in December 2006 Amway was one of the first companies to receive a license to resume direct sales. At the time they had a reported 180,000 sales representatives, 140 stores, and \$2 billion in annual sales. In 2008, Amway Greater China was Amway's largest market, reporting 28% growth and sales of ¥17 billion (US\$2.5billion), beating Europe and America for a total of 30-percent share of the global sales while on the local direct selling front, Amway has 50 percent of the total industry.

Amway China attributes this success in their strategy of adapting to the Chinese market and communicating with the local culture. As a result, Amway China has 90% favourability in terms of brand awareness and is raking more than \$4 billion in annual sales. This impressive

performance allows the company to further develop its resources and continuously update its state-of-the-art research and development facilities.

In terms of taking care of its people, Amway China has stepped up to further the benefits that its distributors get from the company. Last year, Amway has posted an annual sale of \$8.2 billion and a big chunk of it went to its distributors as commissions and bonuses.

*Multiplying Avon & Amway's success to economic scale.* Avon & Amway had an undeniable successful evolution in the Chinese market and these are not isolated cases. Nu Skin, a Utah-based skin care company, has been posting annual sales of around \$65M in China after entering the market in 2003. Truman Hunt, the company's CEO and chairman of World Federation of Direct Selling Associations, states that "It's fair to say that the Chinese regulatory structure is unique. I actually can't think of another country that prohibits multi-level compensation the way China has," (China Economic Review, 2008). Hunt estimates that the direct selling could be worth \$10bn by 2018, but the growth rate could be even greater if direct selling firms were able to operate on the same model they use worldwide.

The unique treatment of direct selling companies by Chinese authorities, forces those to hire their collaborators, which is a major impediment to their development. Furthermore, current restrictions limit the number of licenced direct selling companies to such an extent that many companies in this industry run their activities illegally. Chen Der-Fa, professor and executive director of the Research Center for Direct Selling at Peking University's Shenzhen Graduate School argues that the tight regulations may have the opposite effect on the market than the one intended by authorities, stimulating underground activity (China Economic Review, 2008).

The real question is not why should the authorities deregulate direct selling market, but why shouldn't they? Why work against these type of companies who proved their ability to generate value for both the state and the consumer, when it is more efficient to work with them?

## **Chapter 2 – Theory: Potential impact of direct selling on China's economy**

### *2.1. Direct sales compensation plans – financial perspective*

A typical direct sales organisation incurs three major cost types that need to be harmonized: (1) operational; (2) production & development and (3) compensation plans. If the operational costs are too high, meaning that it costs the company too much to run its activities or reward its owners, the salespeople will lack motivation and/or the product/service will not be a viable one. If the products cost too much to develop and manufacture, they won't be profitable, the salespeople won't be able to sell too many, which will lower their motivation and the business owners won't be properly rewarded. Finally, if the company is too generous with the salespeople compensation less money will be available to invest in product quality, which can have a direct impact on the company's profits. Successful companies learn how to use less and less of their revenue to operate their business and generate effective growth, thus leaving more of the revenue to be allocated for product development and its salespeople.

This section of the paper is concerned with the third type of cost - the compensation plans. These plans are created to motivate specific behaviours of independent salespeople and their retail customers. The behaviours can include: (1) Personal consumption/usage of the products/services; (2) Selling the products/services to customers; (3) Sponsoring others into the business; (4) Supporting others (training for the business); (5) Becoming a leader; (6) Developing other leaders; and (7) Supporting others to develop leaders.



Degree papers are in the "[Xiamen University Electronic Theses and Dissertations Database](#)". Full texts are available in the following ways:

1. If your library is a CALIS member libraries, please log on <http://etd.calis.edu.cn/> and submit requests online, or consult the interlibrary loan department in your library.
2. For users of non-CALIS member libraries, please mail to [etd@xmu.edu.cn](mailto:etd@xmu.edu.cn) for delivery details.

厦门大学博硕士论文摘要库