



What Determines the Success of Direct-selling Firms in China's Healthcare Industry?

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Abstract

From 2006 to 2018, a total of 91 direct-selling enterprises received licenses from China's Ministry of Commerce (MOFCOM). Direct-selling sales accounted for about 50% of the healthcare market in 2016. Other market shares are occupied by drug stores, E-commerce and retailers. Six out of the top eight companies in sales in this industry are direct-selling companies.

There is a research gap for finding the inside drivers of direct-selling companies being more successful in healthcare industry compared to traditional company in terms of their sales. This dissertation provides constructive suggestions for developing a successful direct-selling healthcare business in China, which will help direct-selling companies to grow sustainable in China, help the traditional companies to recognize its competitive advantage gap with direct-selling companies, and help Chinese government to grow healthcare industry and address its employment problems.

This dissertation aims to explore the main inside resources and capabilities of the direct-selling (DS) enterprises in the nutrition and healthcare industry which caused them to perform better than companies in traditional channels (TC) from the internal resource-based view (RBV) and dynamic capabilities (DC) perspective. Executive interviews served as the research method for this dissertation.

The concluding chapter integrates insights from literatures and interviews to outline five important factors (social factors, organizational behavior, marketing, strategy, and information technology) together with corporate culture which leads direct-selling companies to be more successful in the healthcare industry than traditional companies.

One of the most important findings is that healthcare companies require different resources and capabilities when they are at different stages of their life cycle. The five resources and capabilities have different degrees of importance in affecting the performance of direct-selling companies and traditional companies during their early stage, development stage and mature stage.

One conclusion that needs to be emphasized is that strategy plays a key role in affecting corporate performance. As regards strategy, 90% of the interviewees agreed that corporate culture is the most important explanation for a company's better performance. It is a foundation for all corporate functions and activities including financing, operation, investment, and other activities. It affects who the company is going to hire, retain, and develop in the organization. It also attracts customers with similar beliefs, values, and visions.

China has a population of 1.4 billion today. How to provide wellness to such a huge population and generate job opportunities for such a large population are challenges faced by the Chinese government and people. This research discusses policy implications by explaining key factors in developing a successful healthcare business in China. For example, direct-selling as an important marketing channel in the Chinese healthcare industry can provide millions of jobs and protect people from pandemics and other diseases.

Declaration

I, Bing Ma, declare that no portion of the work referred to in the thesis has been submitted in support of an application for another degree or is part of qualification of this or any other university or other institute of learning.

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Introduction

According to Euromonitor's data¹, China's healthcare market grew at a compound annual growth rate of 13% from 2006 to 2016, and it is expected to grow at a compound annual rate of 11% over the next five years. The paper recently reviewed the U.S. IRI's supplements survey in 2020, and found that prior to the COVID-19 outbreak vitamin, mineral and supplement growth rates were among the highest in recent years (up 9.8% year after year). Typical Compound Annual Growth Rate (CAGR) is 5.5%, but the growth has been accelerating since COVID-19 broke out in early 2020. Personal health and wellness products are selling at greater rates due to the pandemic as people are wanting to boost their immune systems. Sales of vitamins, minerals and supplements (VMS) grew 18% in the United States in the first half of 2020. Consumer purchasing trends confirm that brick-and-mortar and online retailers are both growing at the same time. While the increased demand for certain products during the pandemic are not sustainable, consumers are likely to place greater emphasis on preventive health and create a new norm that includes "self-health" regimens. This was confirmed by the SARS case happened in 2003. Compound growth rate (typically ~5.5% per year) are likely to outperform the market with 7%-9% over the next 2 to 3 years.

Although China is the world's second largest market for healthcare products, its per capita nutrition consumption is far lower than that of developed countries². In 2016, the consumption of nutrition products per capita in the United States was around \$80, but it was around \$10 in China. China is expected to overtake the US as the world's largest nutrition market next year as penetration and per capita consumption rise.

Since the beginning of this year, the direct-selling industry in China has achieved remarkable growth with the progress of economic restructuring and the relaxation of regulations on direct-selling business. From 2006 to 2018, a total of 91 direct-selling enterprises received licenses from China's Ministry of Commerce (MOFCOM). (See Table 1).

China has a population of 1.4 billion today. How to provide healthcare wellness to people and how to provide job opportunities for such a large population is a challenge facing by Chinese government. Direct-selling as an important marketing channel in the healthcare industry can provide millions of jobs and strengthen people's wellness. This dissertation provides constructive suggestions for developing a successful direct-selling healthcare business in China, which will help direct-selling companies to provide direct-seller products and jobs in China and also help the Chinese government to solve its employment problems and other economic challenges. The research findings will definitely be beneficial for traditional healthcare companies. It will point out the gap between direct-selling companies and traditional companies in terms of their internal resources and capabilities to integrate and

¹ Euromonitor. Health care products industry research report [R]. Asset information. 2022.7.16

² Chinese Nutrition Society. China has become the world's second largest health food market [J]; People's Daily Online; November 29, 2019

leverage those resources in a dynamic world. With China predicted to be the only GDP-positive-growth country in the world in 2020, the research results will prove more crucial for China's government and for healthcare companies in China.

Table 1: The number of companies granted direct-selling licenses

Year	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total
Number	13	8	2	1	2	3	6	9	9	19	16	2	1	91

Data source: China MOFCOM Direct Sales Industry Information System. 2019

The major difference between the two business models, direct-selling and traditional, lies in several factors in Table 2.

Table 2: The difference between direct-selling and traditional companies

	Direct-selling	Traditional companies
Distributors	No	Yes
Direct seller	Yes	No
Direct seller's role	Customer, direct seller, sales employee	No
Company's role	Supplier and employer	Employer
Customer's Entrepreneurship	Yes, customers can change to be direct sellers if they want to be paid for their referral commissions	No
Direct Seller Commission	Pay direct seller commission every month based on customers referred and customers' purchase value	No direct seller commission
Upline role and training	Yes	No
Fixed location	No	Yes
Manufacturing Facility	Yes, there must be one facility at least	Not required
Customer Service Office required by law	At least one in every province	Not required
Most business	Business-to-Customer (BTC)	Business-to-Business (BTB) and Business-to-Customer

Data source: Draw according to the analysis contents

The research objective is to uncover and delineate direct-selling companies' key success factors that led to better sales performance in China's healthcare market compared to companies selling via traditional channels. The research deployed five primary theoretical perspectives: industrial organization theory, resource-based view, social resource-based view, dynamic capabilities approach, and procurement strategy theory.

The research was divided into four stages. Firstly, the current and future environments of the healthcare industry were investigated, including policies, regulations, procurement drivers, marketing models and prospects. Secondly, it reviewed literatures and theories related to the research questions. Thirdly, executive interviews were conducted for qualitative research purposes and to answer the five key research questions. Finally, conclusions and findings were presented.

At the beginning, the author did not expect to analyze the reasons for the better performance of direct-selling companies from various perspectives, such as organizational culture and globalization level. These factors were added after interviews.

Healthcare Industry in China

For a long time, Chinese people have been faced with the serious problem of unbalanced nutrition and diets, and the problems of overweight and obesity have become increasingly prominent. In 2012, the overweight rate and obesity rate of adults aged 18 and above were 30.1% and 11.9% respectively, a 7.3% and 4.8% increase respectively compared with 2002. Meanwhile, the malnutrition rate of the elderly aged 60 and over in poor rural areas was about 8.1%. With the change of disease spectrum and the aging of society, the sub-health problem is becoming more and more prominent, and human health is facing a common challenge.

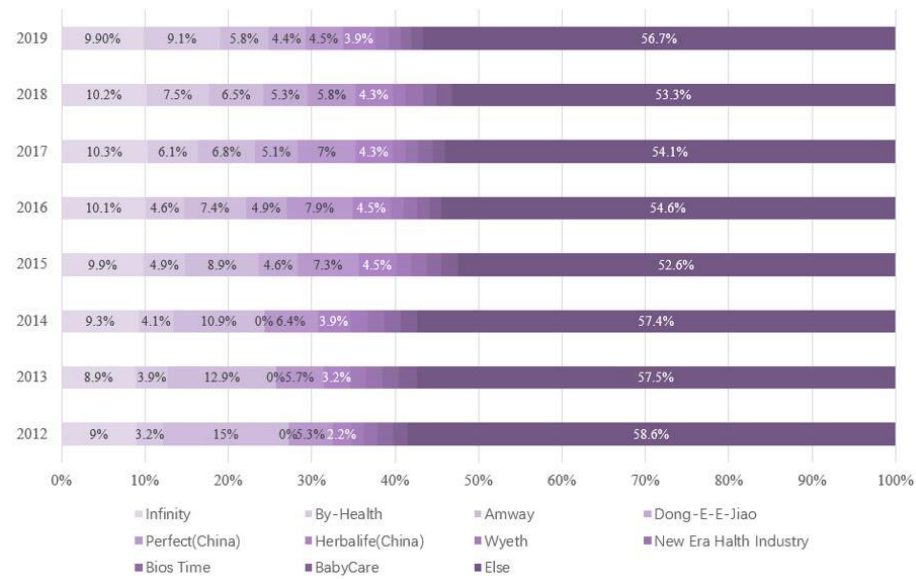
In December 2011, the development of a nutrition and health food industry was included in the 12th Five-Year Plan of the central Chinese government for the first time, which formulated development priorities, development layout, and development goals. The total output value was expected to reach 8 trillion Yuan by 2020. In the "Outline of Food and Nutrition Development in China (2014-2020)" published by the Chinese government in 2014, the government clearly stated that it is necessary to give full play to the role of the market mechanism, guide food consumption with the concepts of modern nutrition, and form a modern nutrition-oriented food industry system, so as to promote the demand for production, consumption, nutrition and health. The "Healthy China 2030 Plan Outline" released in 2016, the "Action Plan to Promote the Development of China's Health Industry in the Next 15 Years," is the first national long-term strategic plan since the founding of the People's Republic of China.

Internationally, it has become a general trend to change from a disease-medicine mode focused on

remediation to a health-medicine mode focused on prevention. Health is more than curing sickness. Medical treatment of illnesses contributes less than 10% to health, while living environments, lifestyles, and nutrition account for 80%. In the future, the health service industry will make reducing disease risk as its goal, changing the pattern with medical treatment at the core, and form the pattern with health and promotion as the core.

Therefore, in order to achieve the national goal of a "Healthy China" advocated by the Chinese government, the role of healthcare products, health food, and health services is crucial. In the new era of strategic opportunities, China's healthcare industry aims to achieve leapfrog integration and industrial upgrading.

The competition pattern of China's healthcare-products industry is relatively scattered. Although the concentration of China's nutrition and healthcare products industry is relatively low, top 10 sales of healthcare product enterprises are still dominated by direct-selling companies. With its mature and excellent direct-marketing model and marketing strategy, Infinitus (Direct-Selling company) has surpassed Amway (China) in market share for the first time since 2015, becoming the leader in China's healthcare products industry. While Amway (China) and Perfect (China) suffered from slow development of new products, lack of timely response to dynamic market demand, and insufficient development of e-commerce channels, their shares declined to varying degrees respectively. Due to its unique product category and good-brand effect, Dong-E E-Jiao has achieved remarkable growth and its product sales have climbed to the fourth place. By-Health is committed to promoting channel diversification, implementing the strategy of its large single-product and e-commerce 2.0 plan. In recent years, By-Health has expanded its coverage categories through overseas acquisitions of LSG and Penta-Vite, etc., and its market share has steadily increased year by year. Although LSG suffered a blow to its goodwill, the company still expected revenues of RMB7.8 billion in 2021, RMB9.8 billion in 2022, and RMB11.9 billion in 2023 respectively.



Data source: Organized by the Qianzhan Industry Research Institute

@ Qianzhan Economist APP

Figure 1: Market share of major enterprises in China's nutrition and health products industry from 2012 to 2019

Data source: Qianzhan Industry Research Institute. Market analysis of China's health products industry in 2019 [J]. Qianzhan Economist APP. July 26, 2019

According to the competition pattern of the domestic nutrition and healthcare product markets, the main healthcare product brands in the market can be divided into three categories. The first category is By-Health and other companies that have occupied the Chinese nutrition and healthcare products market since the early stages of the industry development. The second category is China's time-honored enterprises, such as Dong-E E-Jiao and Tongrentang , which occupy an increasing market share in China's nutrition and healthcare products industry in recent years. The last category is overseas healthcare product brands, such as Blackmores, Swisses, Comvita, and other health products originating from Australia and New Zealand.



Figure 2: Healthcare brand market share pyramid

Data source: Collated according to public information

With the development of the Internet economy and the upgrading of consumption concept, as well as the gradual popularization of shopping methods such as outbound tourism and cross-border e-commerce, many overseas healthcare product brands have become well known by the public worldwide and entered the Chinese market. According to a survey by the China Consumers Association³, about 42% of the Chinese consumers prefer import products to domestic ones. This is because the nature of the healthcare products. It is hard for a regular consumer to understand the quality and function of a healthcare product. They have to rely on the certification recognized by domestic and foreign government agencies to assure the quality of the product and the accountability of the manufacturers and distributors.

Table 3 are the statistics related to health food and dietary nutritional supplement food sales on Chinese Black Friday, Double 11 in 2021. On the right side, we can see that compared with Double 11 in 2020, overseas dietary nutritional supplements increased by 4.23%, while the total amount of healthy food dietary nutritional supplements decreased by 0.36%. In short, the sales of local or Chinese product sales dropped during the craziest sales time in China.

Table 3: Growth of main FMCG categories

The primary categories	2020 Double 11 (100 million Yuan)	2021 Double 11 (100 million Yuan)	2020 vs 2021 year to year	2020 vs 2021 year to year
			Sales growth rate from	Sales growth rate from

³ China Consumers Association, why do Chinese people prefer imported nutrition products? [J]; China Daily Website; April 24, 2019

			Oct 20th to Nov.11th	June 1 to June 20
Seasonings/fast food/dry goods/baking	43.25	53.54	23.80%	-4.12%
Hair care/wigs	23.02	27.10	17.73%	25.05%
Milk powder/side food/nutrition snacks	24.00	27.49	14.56%	7.98%
Pets/pet food and supplies	37.45	41.75	11.47%	4.42%
Women's underwear/men's underwear/home wear	71.52	78.35	9.55%	6.47%
Beauty care/body/essential oil	270.93	292.22	7.86%	22.02%
The infant child products	39.03	41.51	6.35%	-0.71%
Cleaner/sanitary napkin/paper/aromatherapy	78.79	83.55	6.04%	-44.92%
Snacks/nuts/specialty	45.63	48.15	5.52%	-4.28%
Men's clothing	242.70	251.55	3.65%	35.73%
Health food/dietary nutritional supplement food	31.30	31.19	-0.36%	17.63%
Coffee/cereal/brew	38.45	38.30	-0.39%	18.31%
Aquatic meat/fresh vegetable and fruits/cooked food	26.55	26.39	-0.61%	-1.08%
Medical apparatus and instruments	19.39	19.01	-2.00%	-26.89%
Kitchen appliances	73.64	70.01	-4.94%	-5.74%
Makeup/perfume/beauty makeup tools	83.90	79.51	-5.23%	24.68%
Personal care/health care/massage equipment	34.63	32.09	-7.36%	3.32%

Data source: Collated according to public information

There are more supportive data in "Analysis Report on Market Prospect and Investment Planning of China Nutrition and Health Products Industry (2020-2025)" by Foresight Industry Research Institute. Foresight Industry Research Institute also provides other positive industrial big data, industrial planning, industrial applications, industrial park planning, industrial investment, and other solutions.

The demand for the healthcare and the needs of customers have changed dramatically in recent years. Guolian Securities Research Report said⁴, "the healthcare product industry is running with the wind of change, exploring the blue ocean of trillions". The basic functions of major product categories are more subdivided and diversified. Chinese consumers are not only satisfied with the basic functions of various health products such as vitamins and protein powder, but also want to solve health

⁴ Guolian Securities; Securities research report [R]; Guolian Securities official website. June 29, 2021. P1

problems. According to CBNDATA big data⁵, products targeting immunity problems, improving sleep, and bone health nutrition are growing fastest among older customers, while gastrointestinal nutrition, oral products for beauty, sports nutrition, and other products are the preferences of young customers.

For example, there has been a boom in the market for meal replacement products in the past two years. However, nutrition and meal replacement products did not take hold rapidly in China and did not sell quickly for a long time. Traditional brands strive to innovate, but the meal replacement products launched do not meet consumers' needs. Wonderlab, as an "aftershock" force, broke through this industry dilemma and created a new nutritional meal replacement brand for young consumers. On the one hand, overseas cross-border brands occupied market share, and consumers preferred to buy and trust imported brands and products more than local ones. To sum up, traditional companies did not win the market by responding innovatively to customer demand, but new innovative companies seized the opportunity and grew rapidly within the market. Even for the existing customer needs from the past, traditional companies are facing challenges from import-brand companies.

Wonderlab Customers' voice		Requirements for nutritional companies
Flexibility of supply chain	"We hope to get xx new SKU every month, and the number of first order for each SKU is about thousands to 10,000."	Efficient + fast supply chain response; Flexible production capacity
Efficient fulfillment of supply chain	"For these new SKUs, we want to deliver them quickly, because a single live broadcast could sell a million units."	Refining the selling points of market language, channel training ability
Expand customer base	"In addition to our existing customer acquisition channels, can Aland give us more effective solutions and selling points to reach the C end?"	Ability to organize consumer activities, experience feedback of the front end trial of private brand first, incubation + empowerment of emerging brands
Food like healthcare products	"We think consumers are more interested in snack like health products, and we hope that Aland's product solutions will end up more like snacks than traditional health products".	Sufficient product innovation capability at the R&D end helps the brand get closer to the needs and habits of the actual scene at the C end
Larger variety of products	"In fact, we are not limited to the existing scene categories, for products such as maternal and child products, beauty products, we also want Aland to provide a considerable number of solutions."	The middle ground with insight into the market and C end has the core ability to provide a total solution
Cross border e-commerce	"Can Aland help us with cross-border e-commerce business, and can help us do OEM abroad, how many days can the production cycle be shortened?"	The global collaborative supply chain not only gives priority to the independent supply chain, but also has the ability to cooperate with external supply chains

Figure 3: Wonderlab customer's voice and requirements for nutritional companies

Data source: Wonderlab. Nutritional Meal Replacement Food Brand WonderLab Brand Analysis Report [R]. October 7, 2020. P60

The new needs of customers require customer service professionals to coordinate all functions of the company to provide optimal solutions for customers. Some successful companies set up a coffee area that occupied entire office floors for customers to chat and provide feedback to the company. Other

⁵ CBNDATA. Insight Report on Big Health Consumer Trends [R]. China Business News. October 25, 2021

direct-selling companies provided special services to leaders (top-level uplines) of direct sellers (around 10% of the total members). Sales departments set monthly goals for these leaders and reviewed their performance over time and listened to customers' feedback monthly. The sales and service department always maintained a good working attitude, gave accurate responses to the problems raised by customers, and followed up timely to solve customer complaints. The sales department worked with the leader to review the performance of downlines and alert the leaders if their performance goals were not being achieved during the month. Compared with the traditional sales channels, the direct-selling model is easier to provide good service to customers because most of the direct-selling customers get recommendations about the service from the relatives and friends or close colleagues of the sales staff. Such connections to the sales staff have a common lifestyle, personality, or other emotional tie. One interviewee also said that after-sales service made a difference to sales performance.

Interviewees in traditional sales channel commented that direct-selling companies prioritize customer experience better than traditional companies. They agreed that humans' natural needs should be studied according to the personality of the target consumer group. A successful sales experience combines offline experience, online assessment, and recalibration of the products and services to meet the customers' needs. Key Opinion Leader (KOL) has been very popular promotion method for sales and has weakened the competitive barrier of direct-selling companies. Table 4 is a ranking of sales with KOL during Chinese Black Friday, "Double 11" in 2021.

Table 4: Double 11 Sales with KOL in 2021

Ranking	Anchor	Platform	Sales volume (100 million Yuan)	Number of fans (ten thousand)
1	Jia-qi Li	Taobao	217.61	5939.6
2	viya	Taobao	199.87	9195.5
3	Li Xue	Taobao	45.85	3270.0
4	Yan Zuo	Taobao	32.49	268.1
5	Tmall supermarket	Taobao	20.17	5682.7
6	MIUI	Kuaishou	19.04	4470.3
7	Dan Dan	Kuaishou	18.54	4250.2
8	Youzhi Xin	Taobao	17.55	9576.9
9	CHINSTUDIO	Taobao	15.83	809
10	Lier baby	Taobao	14.20	1610.4
11	XIAO LIU JADE	Taobao	12.91	44.8
12	PG living home	Taobao	10.54	1444.3
13	What's worth buying	Taobao	9.83	35.9
14	Tmall supermarket	Taobao	7.04	120.5
15	Zijia Long	Taobao	6.95	34.0
16	Jianpeng Zheng & Zhen Yan	Tik Tok	6.84	5393.1

17	Haier	Taobao	6.70	1451.8
18	Nailiang Jia	Tik Tok	6.52	2060.0
19	Olay	Taobao	6.37	1740.0
20	Yonghao Luo	Tik Tok	5.90	1872.5

Note: Anchor refers to KOL. Sales volume refers to the product sales influenced by KOL's broadcasting events.

In recent years, for companies who wants to enter the Chinese market, the word KOL, Key Opinion Leader, comes up the first in their knowledge. It is well known globally as “influencers”. KOLs are individuals who have sizeable followings on social media platforms and are able to leverage their followings to help brands gain brand exposure or direct sales of products.

According to E-marketer⁶, spending on China's shopping Apps reached USD 1.53 trillion. In 2021, influencers on WeChat as well as on Chinese Tiktok, Red (Xiaohongshu), Kuaishou platforms were largely involved in promotional campaigns of different brands. Research by Rakuten in 2020⁷ showed that nearly four-fifths of online shoppers aged 35 to 44 bought directly as a result of KOL support. The advantages of KOL marketing are enhancing purchase intention, high level of exposure, accurate positioning, and high in commercial value.

Business model of direct-selling in China

Direct selling was first brought into Chinese market in the late 1980s when Avon was permitted to establish its venture. In practice, some direct selling is equivalent to multi-level marketing, and direct-selling companies often use some forms of compensation program to incentivize their dealers or salespeople to earn revenue from their sales performance, as well as those who are on their top-line check-in rear sign-up form. In China, these recruited salespeople are often referred to as Xiaxian, or “downliners” in the sales network of their distributors and their leader who enjoyed the compensation based on their sales performance is often called Shangxian, or “upliners”.

⁶ Yang Mu. China's main 34 KOL[J]; <https://www.hicom-asia.cn/>. October 13, 2021

⁷ Rakuten. Major consumer of Rakuten market in Japan [R]. <https://www.egainnews.com/article/7448>. December 5, 2020

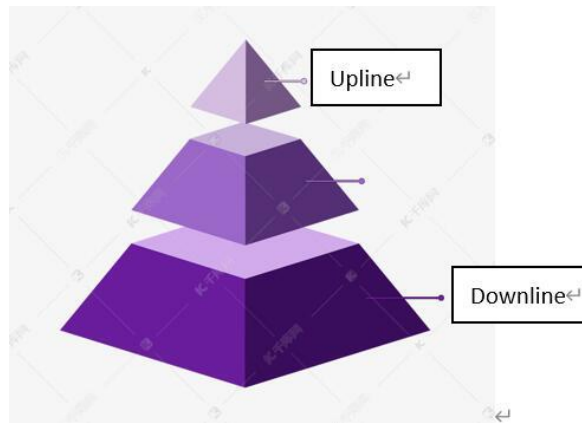


Figure 4: Business model of direct-selling

Data source: Draw according to the analysis

Attracted by Avon's early success, Amway, Mary Kay, and other U.S. direct sellers began to trickle into China in the early to mid-1990s. By promising riches in return for minimal investment, these pioneering direct sellers encouraged millions of poor and would-be entrepreneurs to join their sales schemes. Following these multinational giants, some domestic lesser-known direct-selling companies also emerged and flourished throughout the country.

There are several factors that can explain the rapid growth of direct-selling in China.

First, the country's backward logistics in rural areas provided great opportunities for the development of various direct-selling models. Direct selling is often regarded as the most personalized mode of business because the product being promoted is generally endorsed and delivered by those whom buyers trusted, such as their relatives, coworkers, or friends.

Second, when compared with most local brands, increasingly affluent Chinese consumers constantly show a preference for foreign brands. All top ten sales direct-selling companies are foreign companies selling foreign-brand products. Chinese people are very familiar with the most popular direct-selling company, Amway. Its low-priced home supplies and healthcare products have long been widely accepted by the Chinese public because of their perceived value for money. According to an AC Nielsen survey conducted in mid-1997, 60% of Chinese users rated Amway products as excellent or very good⁸. This strong domestic demand induced foreign direct-selling giants to increase their investment in China and thereby accelerated the growth of healthcare industry.

⁸ Admin. Amway Development Path [J]. www.dcdbjt.com/chuangyebaodao/53374.html. September 19, 2020

Third, the fast growth of direct-selling business in China is a result of Chinese culture and its unique institutional settings. In other words, the Chinese traditional mercantilism in the job market is driving the high growth rate. In the 1970s, all employees in China worked for state-owned enterprises or government agencies. Therefore, direct-selling companies provided a viable means to business-minded Chinese people to improve their financial situations without forcing them to leave their assigned companies or organizations (Unit). According to Forney and Fang⁹, one anthropologist described the development of direct selling in China as a phenomenon of “Confucius meeting capitalism” or “wringing profits from one’s social networks”. To some enthusiastic Chinese, direct selling was not only a job, but also an opportunity to succeed in life.

The reasons behind the growth of direct selling in China are a combination of all of factors above.

According to the World Federation of Direct-Selling Associations¹⁰, the global direct-selling industry generated annual sales of more than \$180 billion between 2016 and 2019. During the first three years of the statistical period, the average compound growth rate of global gross sales was 5.0%, 3.6% and 1.8% respectively. However, in 2019, affected by the global economic downturn, the total sales volume of the direct-selling industry fell by 4.3% compared with the previous year.

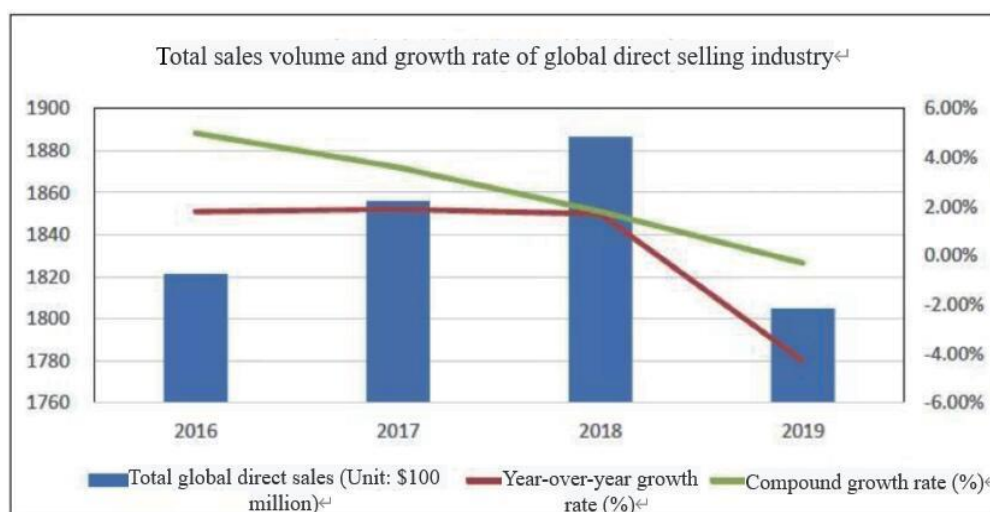


Figure 5: Total sales volume and growth rate of global direct-selling industry from 2016 to 2019

Data source: Direct selling Industry Development Research Center, Peking University. Overview of Direct-selling Industry in Global and Major Countries from 2016 to 2019 [J]. Daily Quick Review; August 11, 2020

⁹ Forney and Fang. Confucius and Globalization [J]. Study of dialectics of nature. 2004(11)

¹⁰ Direct selling Industry Development Research Center, Peking University. Overview of Direct selling Industry in Global and Major Countries from 2016 to 2019 [J]. Daily Quick Review; August 11, 2020

But over the past four years, the global direct-selling industry has maintained more than 110 million independent sales representatives. According to data from the World Federation of Direct-selling Associations, the number of independent sales representatives increased by 8.7%, 5.3% and 2.0% during 2016 and 2018 compared with the previous year. In 2019, the decline in sales was accompanied by a decline in the number of independent sales representatives, down 1.7% year-on-year.

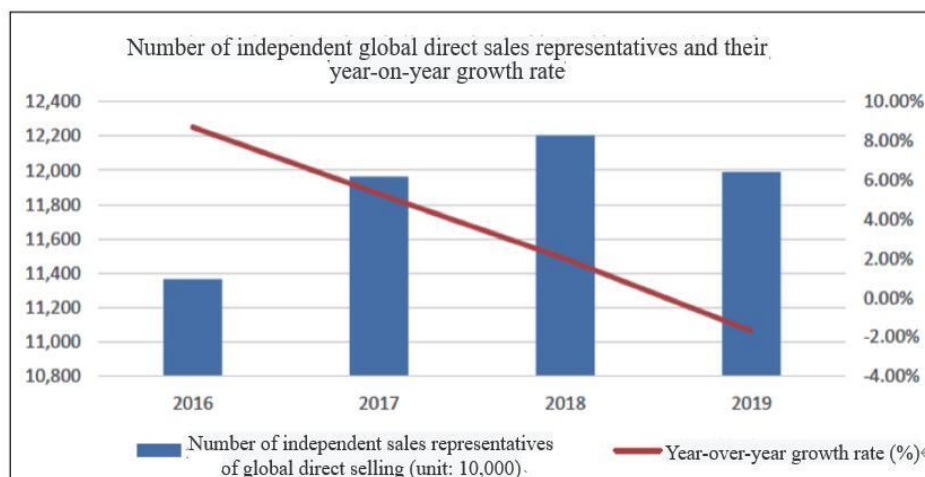


Figure 6: Number of independent sales representatives in global direct-selling industry from 2016 to 2019
Data source: Direct selling Industry Development Research Center, Peking University. Overview of Direct selling Industry in Global and Major Countries from 2016 to 2019 [J]. Daily Quick Review; August 11, 2020

According to the statistics of the World Direct-selling Association, the Chinese mainland's direct-selling market share has been stable at around 18% of the global direct-selling market share from 2016 to 2019. Except for 30% year-on-year decline in 2019, it has maintained a year-on-year growth rate of more than 17% in the other years, which can be described as rapid development. Total sales peaked at \$34.22 billion in 2018.

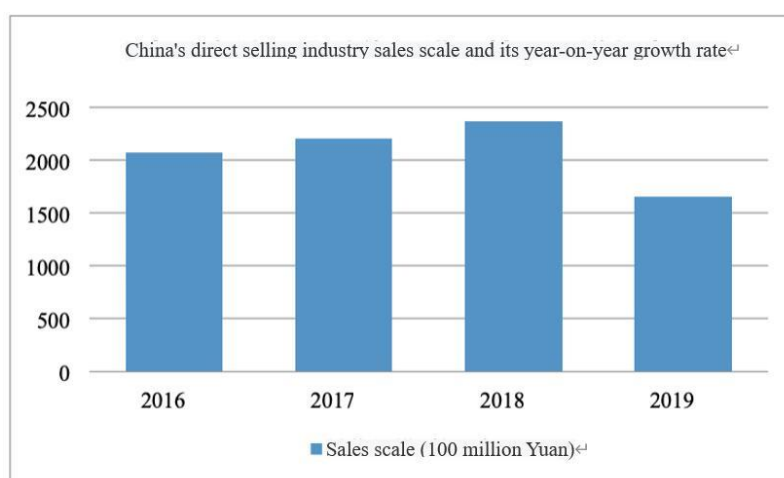


Figure 7: Sales scale of direct-selling industry in Mainland China from 2016 to 2019

Data source: Direct-selling Industry Development Research Center, Peking University. Overview of Direct selling Industry in Global and Major Countries from 2016 to 2019 [J]. Daily Quick Review; August 11, 2020

Data shows that the market size of healthcare products in China has continued to grow from 2013 to 2020¹¹. Since 2017, the growth rate of China's healthcare product market has accelerated, and it is expected that the market size of China's healthcare product market will increase to RMB 270.8 billion in 2021. With the improvement of living standards, people's pursuit of health, and the deepening of globalization, the European healthcare product has hundreds of millions of consumers in China and has become a world-renowned market. Functional demand for healthcare products is increasing, and consumers pay more attention to anti-aging and enhancing immunity products.

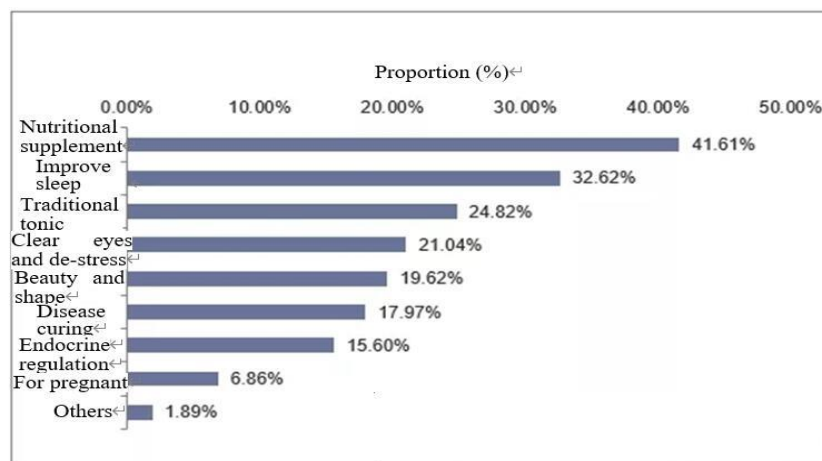


Figure 8: China's healthcare products consumer market segmentation product structure as of February 2021

Data source: Fang Mantao. Study on consumption scale and future development direction of health food industry in 2022 [J]. www.chinairn.com/hyzz/20220829/114352131.shtml. August 29, 2022

As of February 2021, healthcare products commonly used by Chinese health food users mainly focus on nutritional supplements, sleep improvement, and traditional tonics. During the pandemic, Chinese consumers' awareness of health and immunity increased, thus the demand for immunity-enhancing health foods continued to grow. At present, several categories of products have achieved remarkable results in functional research.

Healthcare Industry Policy

Food and medicine both are industries closely related to national economy and people's life. In China, the government organizations including the State Council, the State Food and Drug

¹¹ IIMedia Research. Market Scale and Forecast of Health Products in China from 2013 to 2023 [J]. data iimedia.cn. April 15, 2021

Administration (FDA), State Development and Reform committee, Labor and Social Security Bureau, Ministry of Health are responsible for drug-related supervision and management.

The development of China's food safety regulatory system

Food safety regulation decides the safety standards of direct-selling and traditional healthcare product companies' production and sales. It is also one of the most important reasons that direct-selling law requires all companies in China to have a manufacturing facility to support its business. Not all traditional healthcare companies have a manufacturing facility; this is also an important reason why the direct-selling companies have better performance than traditional ones. Direct-selling companies have a complete supply chain to support their R&D and new product development, and have more resources in developing new dosage forms and new products.

Understanding the development of healthcare industry in China and its regulatory change will help understanding the drivers for direct-selling development in China and direct-selling companies' overperformance compared to traditional ones.

According to the provisions of Article 4 of the Food Safety Law of the People's Republic of China¹², the competent supervision government agencies include the Health Administrative Department, the National Food and Drug Supervision and Administration Department, the Quality Supervision Department and the Industrial and Commercial Administrative Department. The supervisory rights and responsibilities of each department are as following:

Table 5: The rights and responsibilities of the regulatory authorities for healthcare products in China

The competent department	Management link	To issue certificates
Administrative department of health	Food safety risk assessment, food standard formulation, food safety information promulgation, establishment of qualification conditions and inspection procedures of food inspection institutions, investigation and punishment of food safety	Product standards
The state food and drug administration	Registration of nutrient supplements, registration of health food, comprehensive supervision, organization and coordination of	Nutrient supplements and health food approval, health

¹² The Paper Online. The full text of Food Safety Law of the People's Republic of China [R]. https://m.thepaper.cn/baijiahao_10062623. November 20, 2020

	food safety, and investigation and punishment of major accidents in accordance with the law	food hygiene license, GMP certificate, health food
Quality supervision department	Food production license, supervision and food import and export license	Food production license (QS), bar code certificate, entry-exit inspection and quarantine bureau entry cargo clearance and health certificate
Administration for industry and commerce	Regulation for food circulation	Business license, food circulation license

Data source: Foresight Industry Research Institute; <https://bg.qianzhan.com/report/guihua/>; March, 2018

The development of China's food safety supervision system can be divided into two stages -- before and after 2003. In the more than 50 years since the founding of New China to 2003, China had implemented a food hygiene supervision system with the Health Department as the main regulatory department coordinated by relevant department¹³.

After 2003, food safety supervision entered the stage of combining segmentation supervision with comprehensive coordination. The development and changes of the food safety supervision system are closely related to China's social and economic development and productivity levels, and continue to adapt to the growing demands of the people for food safety and the development situation of the food safety.

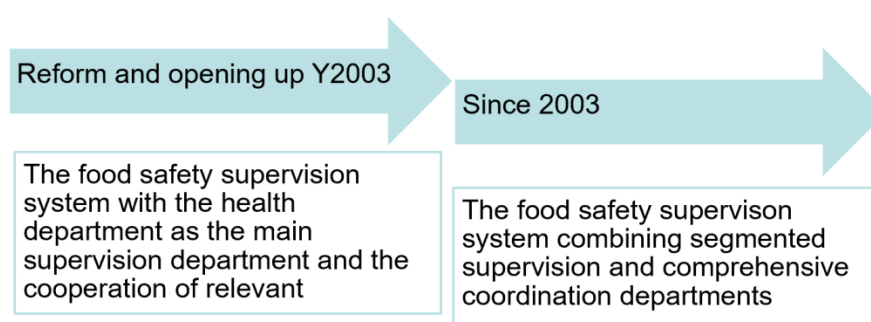


Figure 9: Changes in China's food safety regulatory system

Data source: Qianzhan Industry Research Institute; <https://bg.qianzhan.com/report/list/1193.html>; December, 2018

At present, under the leadership of the Food Safety Committee of the State Council, the Ministry

¹³ Wang Kang, Lu Huaqiao. Current situation and development prospect of China's health food industry [J]. Food industry. 2014(12)

of Health and the relevant government agencies have established a coordination mechanism for the Ministry of Food Safety, and adopted a joint committee management system which involved the National Food Safety Rectification Office and the Joint Milk Powder Project Working Group, Emergency Centralized Coordination Office, on-site supervision, invitation to local reporting, etc. They also established a working model that takes the lead in organizing and coordinating, timely analyzing and judging the behavior and situation of food safety, proposing work ideas and measures, and implementing the management plan according to the responsibility of each department. A more collaborative and smoother cross-department working mechanism between the central and local governments was executed to prevent confusing responsibility, and to form a regulatory administrative team.

In addition to Beijing, Shanghai and Fujian, the provincial programs of the remaining 28 provinces (autonomous regions and municipalities) have stipulated that the comprehensive responsibility for food safety should be transferred from the food and drug supervision department to the health department. A provincial health administrative department has already started work, and 11 provinces have also set up a comprehensive food safety coordination office in the health department (bureau). The office of the Food Safety and Coordination Agency shall be established, and the corresponding work shall be undertaken by the health or other departments. The reform of food safety supervision system at the city and county levels is still in the process¹⁴.

Table 6: Implementation procedures and contents of China's food regulatory system

Layer	Specific management department	Management Responsibilities
The State Council layer	The Ministry of Health	According to the law of food safety, undertake the responsibility of food safety comprehensive coordination, responsible for food safety risk assessment, food safety standards formulation, food safety information released, the qualification condition of food inspection institutions and the qualification of inspection specifications, investigate and punish major food safety accidents, food additives, and related product varieties, import the food and related

¹⁴ Huang Xiongchao, Liu Yue. Development status and prospect of health food in China [J]. Health nutrition in China. 2013(02)

		products without national standards, making the material directory of both food and medicine
	The Ministry of Agriculture	To supervise the quality and safety of agricultural products, including carrying out risk monitoring and assessment, participating in the formulation of relevant standards, and releasing information on the quality and safety of agricultural products.
Local government layer	Local government departments	To be uniformly responsible for, lead, organize and coordinate the supervision and administration of food safety in their respective administrative areas, and establish and improve the working mechanism of whole-process supervision and administration of food safety; Unified leadership and command of food safety emergency response; We will improve and implement the responsibility system for food safety supervision and management, and review and evaluate the food safety supervision and administration departments

Data source: Sun Guohua; Brief discussion on China's food safety supervision system [J]; Commodity and Quality · Academic Observation. 2013

Because there are many government supervision agencies in over 30 provinces, direct-selling companies are required to open and run at least one customer service office for after-sales service in each province. This costs a large amount of direct-selling companies' capital and human resources. There is not such a requirement for traditional companies, and this is a cost savings for traditional company. However, if we think about the distance between the company and the customers, it is easier for customers of direct-selling companies to have off-line physical communication with direct-selling firms. It is convenient for direct-selling firms to know customers' needs and make the quickest responses accordingly.

Industry development plan

In December 2011, the National Development and Reform Commission and the Ministry of Industry and Information Technology jointly issued the "12th Five-Year Development Plan for the Food Industry", which listed the "Nutrition and Healthcare Food Manufacturing Industry" in the national government development plan for the first time.

Table 7: China's nutrition and healthcare products industry related planning

Policies	Implementation date	Main contents
Light industry adjustment and revitalization plan	2009	Focused on upgrading energy-saving and emission-reduction technologies for the food, paper, battery, leather and other industries; Supported the deep processing of agricultural and side products; Focused on diversifying the varieties of oil, implement efficient, low-consumption and green production; and promoted the conversion and value-added development of oil crops. Implemented special programs on food processing safety; Established a food quality and safety mechanism and speed up the revision of industry standards.
Development plan for nutrition and health food during the 12th five-year plan period	2012	The plan clearly declared the "industry development direction and focus" of the nutrition and health food manufacturing industry, arranged the industry blueprint and defined the development strategy. The objective is that by 2015, the output value of nutrition and health food would reach 1 trillion RMB, with an average annual growth rate of 20%. State would build up 10+ enterprises with product sales revenue over 10 billion RMB.
Implementation plan for key work of food safety in 2015	2015	Strictly enforced the law; strengthened control over the source of edible agricultural products; strengthened oversight over the whole process of food production and marketing; strengthened risk prevention and control in key regions; strengthened the detection and control of hidden risks; and maintained a high pressure and severe punishment. Improved laws and regulations and standards, and strengthened the standardization of law enforcement; Standardized the production and operation of enterprises and improve the level of risk control.
National food safety plan for the 13th five-year plan period	2016	Mainly for agricultural products. It is planned that by 2020, the green prevention and control coverage of crop diseases and insect pests will reach more than 30%, the utilization rate of pesticides will reach more than 40%, and the overall pass rate of quality and safety monitoring of major agricultural products will reach more than 97%.

The 13th five-year development plan for the food industry	2016-2020	The industrial policy will support key enterprises to become stronger, medium-sized enterprises to become larger and small enterprises to become better. The policy will promote the merger and acquisition of enterprises, food sub-industry concentration will be further enhanced.
Healthy China Plan	2017-2030	National Nutrition Program

Data source: Qianzhan Industry Institute. <https://bg.qianzhan.com/report/list/1193.html>

Industry demand indicators

The indexes of China's nutrition and healthcare products mainly include the development economic indexes of nutrition and healthcare products and the indexes of supply and demand balance of nutrition and health products industry. Among them, the economic indicators mainly include comprehensive operating benefit indicators, operating ability indicators and solvency indicators. The index of supply and demand balance includes the index of supply and demand of nutrition and healthcare products.

Per capita income growth and aging driven demand growth

Healthcare products are typical consumer commodities. The disposable income level, population age structure, and healthcare product consumption consciousness of residents are the core factors driving the industry demand.

The growth in per capita disposable income is the most core driving factor for healthcare products industry growth. More income means consumers can spend more money on healthcare products, thus stimulating the scale of healthcare products industry to expand. The per capita disposable income of China's urban residents rose from RMB 24,565 in 2012 to RMB 42,359 in 2019, the per capita disposable income of rural residents rose from RMB 7,917 in 2012 to RMB 16,021 in 2019, the total market size of healthcare product industry increased from RMB 113.067 billion in 2012 to RMB 268.5 billion in 2019. With the increase of consumers' per capita disposable income, the market scale of healthcare products has an obvious trend of expansion.

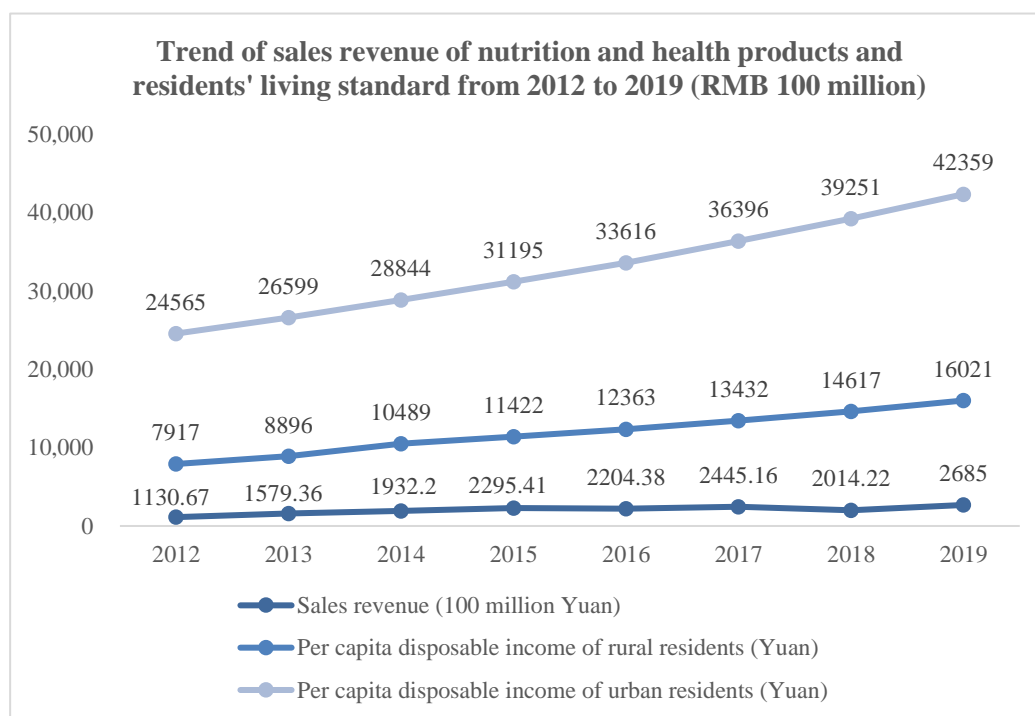


Figure 10: Trend chart of sales revenue of nutrition and health products and residents' living standard from 2012 to 2019 (RMB 100 million)

Data source: Qianzhan Industry Institute. Market status and development trend analysis of China's health products industry in 2019 [J]. <https://bg.qianzhan.com/report/detail/459/190625-fe0b50df.html>. June 25, 2019

Another factor driving the growing demand for nutrition and healthcare products in China is the age structure of the population. At present, China has entered the aging society, the elderly over 60 years old account for about 10% of the national population, the aging of the population increases at a rate of 3% per year, the proportion of the elderly population in China will exceed 30% by 2050. The elderly occupy a big percentage of the population which consumes healthcare products. According to the following research results, the scale of China's healthcare product industry will significantly expand in the future.

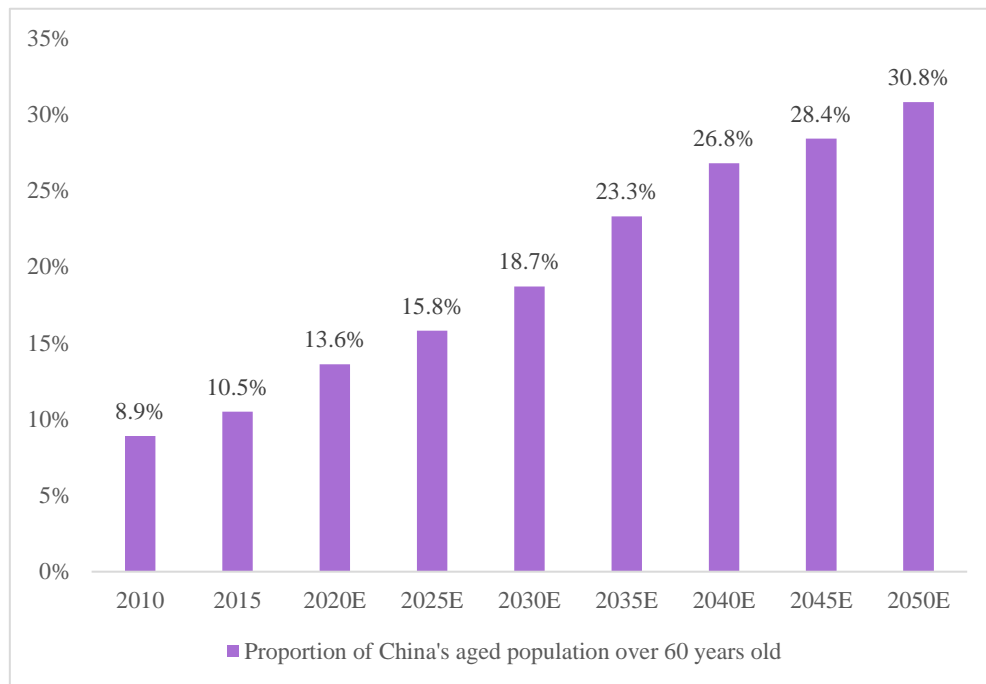


Figure 11: Proportion and prediction of China's aged population over 60 years old from 2010 to 2050

Data source: China Development Research Foundation. China Development Report 2020: The Development Trend and Policy of Population Aging in China [R]; Poster News; June 12, 2020

Due to the impact of COVID-19, consumers' awareness of nutritional and healthcare products is dramatically increasing. It is expected that the growth rate of the nutritional and health products industry will remain at about 10% in the next five years at least, and the market size will reach RMB 374 billion by 2025.

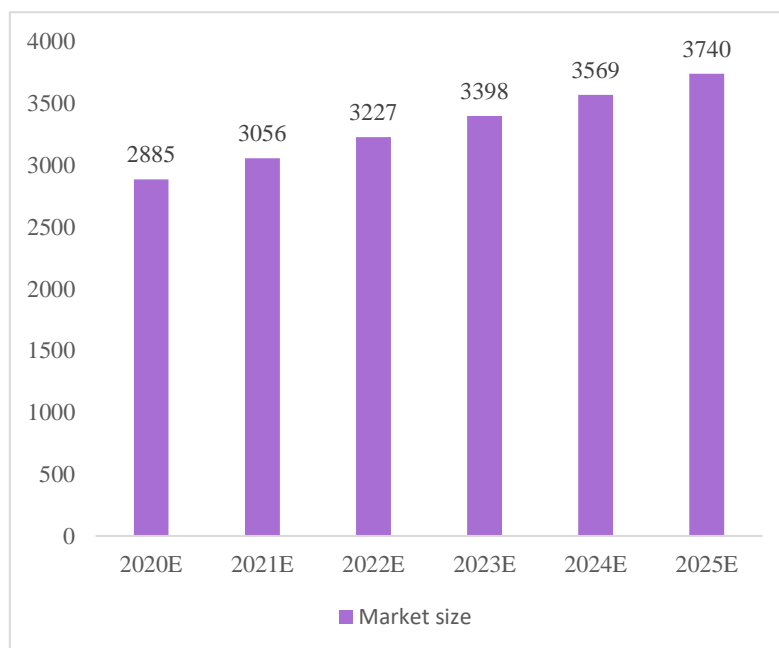


Figure 12: Market size forecast of health products industry from 2020 to 2025 (RMB 100 million)

Data source: Qianxun Consulting; Report on the Development Prospect of China's Health Products Industry [R];
www.qx365.com; December, 2019

According to incomplete statistics¹⁵, in 2018, the production capacity of China's healthcare products industry was 704,000 tons, the domestic output of healthcare products in the same period was 587,500 tons, and the total domestic demand for healthcare products was 592,500 tons.

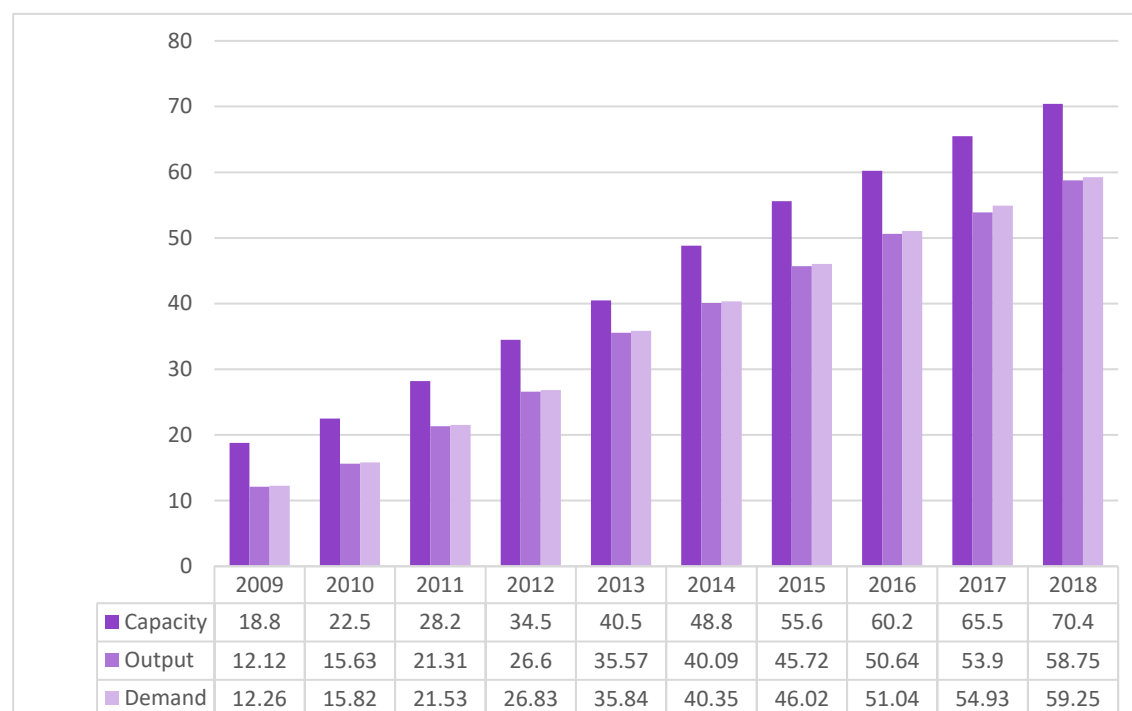


Figure 13: Statistics on production and sales rate of China's nutrition and healthcare products

Data source: Settled by Zhiyan Consulting; China industry information network;

<http://www.chyxx.com/industry/201907/757244.html>

Comprehensive operating efficiency indicators

In 2015, there were 534 enterprises in the health product industry in China. By the end of 2015, its assets and liabilities were RMB127 billion and RMB 55 billion, up 11.06% and 3.76% respectively over the previous year. In terms of operational efficiency, sales revenue reached RMB 225 billion in 2015, up 18.80% year on year; Product sales profit and total profit were RMB 41 billion and RMB 34 billion respectively, with year-on-year increase 9.19% and 5.31%. All in all, China's nutrition and healthcare product industry performed well in 2015.

¹⁵ Zhiyan Consulting. Study on Health Care Products in China [J]; www.chyxx.com/industry/201907/757244.html. July 9, 2019

Table 8: Comprehensive operating efficiency indicators of healthcare product industry from 2011 to 2015

Indicators	2011	2012	2013	2014	2015
Number of enterprises	365	391	450	483	534
Total assets (10,000 Yuan)	5,202,767.00	6,542,883.00	8,826,994.70	11,474,287.40	12,742,836.90
Total liabilities (10,000 Yuan)	2,218,376.40	2,948,475.30	3,714,955.20	5,335,716.30	5,535,073.00
Sales Revenue (10,000 Yuan)	8,564,671.10	11,306,758.50	15,793,637.20	19,321,985.70	22,954,081.00
Total profit (10,000 Yuan)	1,483,348.20	2,089,252.70	2,859,384.50	3,251,355.30	3,423,881.50
Product sales profit (10,000 Yuan)	2,119,734.20	2,838,156.90	3,539,701.90	3,838,673.30	4,191,482.50

Data source: National Bureau of Statistics, collected by Qianzhan Industry Research Institute

Profitability indicators

From 2011 to 2015, the profit margin of China's nutrition and healthcare products industry remained above 18%, reflecting the strong profitability of industry product sales, indicating that the industry's unit expenditure was profitable. The return on total assets was above 29%, indicating a high return on investment of industry assets. The value of capital preservation and increment was more than 117%, indicating that industrial capital preservation and increment are sustainable and beneficial to industrial development. Overall, the industry's profitability is very positive.

Table 9: Profitability indicators of healthcare product industry from 2011 to 2015

Indicators	2011	2012	2013	2014	2015
Sales Profit Rate (%)	24.75	25.10	22.41	19.87	18.26
Cost Profit Rate (%)	21.99	23.56	22.45	20.38	17.80
Total Assets Return Rate (%)	34.05	36.46	37.85	32.62	29.04
Assets Appreciation Rate (%)	152.14	120.44	142.22	120.08	117.40

Data source: National Bureau of Statistics, collected by Qianzhan Industry Research Institute

Development capability indicators

From 2011 to 2015, the industry sales growth rate was over 18%, reflecting the rapid growth of the market. The accumulated asset rate was above 17%, indicating that the industry has strong ability to accumulate capital resources and maintain development. The total asset growth rate was more than 11%, reflecting the rapid expansion of industry asset scale. Overall, the industry is developing well with a relatively high speed.

Table 10: Development capability indicators of healthcare product industry from 2011 to 2015

Indicators	2011	2012	2013	2014	2015
Sales Increase Rate (%)	52.25	32.02	39.68	22.34	18.80
Accumulated Asset Rate (%)	52.14	20.44	42.22	20.08	17.40

Total Asset Increase Rate (%)	40.08	25.76	34.91	29.99	11.06
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Data source: National Bureau of Statistics, collected by Qianzhan Industry Research Institute

The development prospect of China's nutrition and health product industry is broad. As China's disposable income and healthcare product penetration rate increase, markets for major three product categories, vitamins/ food supplements, Chinese herbal medicines/traditional products and pediatric supplements will all expand rapidly.

In such an industry market environment, and considering the research purpose, the paper has prepared the following detailed research objectives:

- Collect the first-hand knowledge and data about the factors that influence the success of direct-selling companies in China.
- Adopt mature scientific qualitative research methods and follow research procedures to analyze the factors for direct-selling companies' better performance compared with traditional ones.
- Conclude with findings and further shape the answers to the research questions.

There are five (independent variables) success factors the dissertation selected for research. Four characteristics were chosen to as the criteria to evaluate the economic attributes of the resources/factors: value, rareness, inimitability and substitutability.

In this dissertation, executive interviews were chosen for the research. "Interviews are generally used to conduct qualitative research in which the researcher is interested in collecting facts or gaining insights or understanding of opinions, attitudes, experiences, processes, behaviors, or predictions"¹⁷. Interviews in the paper focused on individual interviews, one person at a time. Although the number of the interviewees is not big, but they are all senior executives and they gave a range of insights and understandings, which is a high-level point to review these questions and provide enough data and knowledge for the research. In China, the topic of direct-selling industry and companies is a very sensitive one because of the government's serious regulation of the industry. A limited amount of literatures about direct-selling business commission model (mutli-level marketing) and operational models. Several direct-selling company executives rejected these invitations for interviews, and one refused to sign the interview notes because the concerns mentioned above. Chinese society generally does not favor the direct-selling business model, and the Public Safety Bureau has sometime over-

¹⁷ Baidu Wikipedia. Study on the Method of Interview [J]; <https://baike.baidu.com>. May 5, 2020

controlled those kinds of businesses. Therefore, the potential interviewees were more receptive to qualitative individual interview than other quantitative data gathering approaches.

The first section of this paper is to introduce the literature review. The second section expounds the theory and problems. In the third section, we describe the research design and methods. In the fourth section, conclusions are explained based on our research. Finally, the paper also discusses implications for business practice and recommendation for further research.

Following below, the paper will start to discuss several important definitions for this research, including direct-selling, direct-selling companies and sales performance. And then, the paper will elaborate the literature the author reviewed related with the factors caused the success of direct-selling companies in China healthcare industry and research gap found after literature review.

Literature Review Findings & Research Gaps

Literature exists introducing traditional and direct-selling business model in Chinese market, and there are theories discussing different factors that may lead to the success of a company's sales performance. However, there is a research gap regarding the inside drivers of direct-selling companies being more successful in the healthcare industry than traditional companies. This research is to study the internal resources and capabilities that could explain the success of direct-selling businesses in China.

Chinese people and government have pretty strong negative opinions about the direct-selling business model. Few articles have discussed the relationship between the capabilities and resources of healthcare companies and their performance. The research on this gap can provide knowledge for healthcare companies to adopt a more scientific way in selecting strategy, implementing strategy and realizing strategic goal and performance.

Before in-depth analysis, the research first found out the definition for the research question.

Definition: Direct-Selling

“Establish an instant exchange relationship with the customer in which the usual intermediaries in the distribution chain are omitted”. And direct-selling is also known as relationship marketing. It means “all marketing activities are aimed at establishing, developing, and maintaining successful relationship exchange” (Morgan and Hunt, 1994, p 22).

Direct-selling (DS) has been defined as “selling face-to-face outside of a fixed retail location”

(Peterson, Robert and Wotruba, 1996). An important aspect of direct-selling is Multi-level Marketing (MLM). MLM refers to “the practice of distributing, selling or supplying products or services through various levels of independent agents. These agents will receive commissions, bonuses, discounts, dividends or other forms of remuneration in return for selling products or services and/or recruiting other agents. The party who recruits another participant is ‘upline’ and the recruit is ‘downline’. In MLMs, upline are paid bonuses or commissions on the sales made by their direct downlines and those who are downline of these downlines (Daryl, 2001).



Figure 14: Marketing model of direct-selling

Data source: Gerald Thomas; Why does the health products market prefer direct-selling model [J]; University of Essex; October 16, 2020

As a marketing strategy, direct-selling is different from other marketing means such as retail and wholesale. The unique features of this marketing strategy are: “First, distributors are not formal employees but are ‘independent distributors’; Second, it does not have a fixed retail location, nor does it have large-scale advertising, and relies entirely on distributors personal relations to approach costumers on a face-to-face basis. Third, distributors recruit each other to form multilevel sponsorship network that are concurrently financial ties under the governance of a hierarchical system of distributing royalties based on seniority”¹⁷. Retail and wholesale are the means for most traditional companies.

The forte of direct-selling strategy is ‘using’ relationships such as friendships, kinship and other personal connections to promote and sell products. Direct-selling is based on the concept of making the consumers perform functions of distributors, as it based on “word-of mouth” promotion. That is, “customers consume the product, are satisfied with it, and then promote it to their network of friends,

¹⁷ MBA Think Tank Encyclopedia; Distributor [J]; <https://wiki.mbalib.com/wiki>; May 1, 2013

relatives, co-workers, and almost everyone they know” (Malik, 2012).

A meta-analysis of relationship marketing, “Factors Influencing the Effectiveness of Relationship Marketing: A Meta-Analysis” (Palmatier et al., 2006), gave meta-information and insights for relationship marketing. Direct selling is one type of relationship marketing. Figure 15 is the structure of the article.

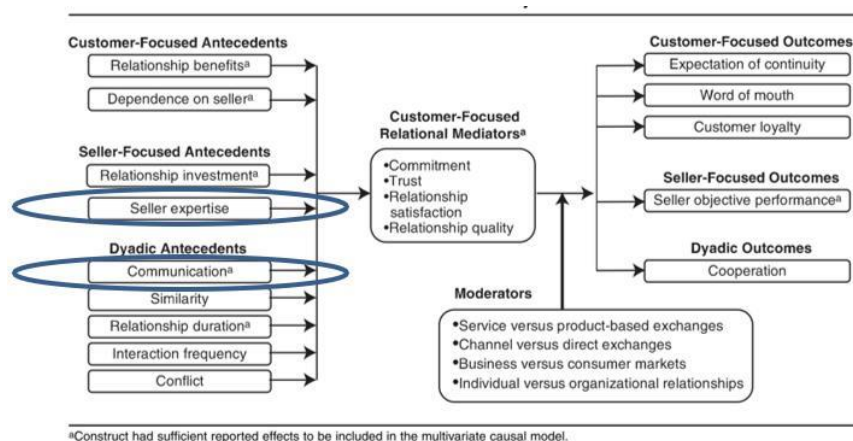


Figure 15: Relational Mediator Meta-Analytic Framework

Data source: Palmatier, R. W. et al. Factors Influencing the Effectiveness of Relationship Marketing: A Meta-Analysis [J]. Journal of Marketing, 2006,70(4), pp. 136–153

Key findings of the article, “Factors Influencing the Effectiveness of Relationship Marketing: A Meta-Analysis”, are that seller expertise and communication are most effective for generating strong relationships and are the most influential factors for customer-focused relational mediators (commitment, trust, relationship satisfaction, relationship quality).

Definition: Direct-selling Companies in China

“Direct-selling companies” in this dissertation refers to the above 91 companies listed in the Introduction section, which are the firms possessing “direct-selling enterprise licenses” issued by the China Ministry of Commerce of the People’s Republic of China (MOFCOM).

All other companies that have adopted similar direct-selling business models are not legally operating in China. Therefore, those companies were not considered in this research.

Definition: Traditional Companies in China

Except the 91 direct-selling companies listed in the Introduction section, which possess “direct-selling enterprise license” issued by China Ministry of Commerce of the People’s Republic of China

(MOFCOM), all other companies are considered to be traditional companies in this research.

Definition: Sales Performance and Measures of Success

Sales performance can be defined as “quantity of sales achieved, the quality of customer relations they maintain, and the knowledge they possess about their companies’ products, competition, and customer needs”. “It can be measured using sales volume, dollar sales, managerial evaluations, or self-report of sales effectiveness” (Krishnan et al., 2002).

The company's performance is evaluated by sales value in this dissertation. “Camison & Lopez (2012) stated that traditional financial performance is an indicator commonly used to evaluate the performance. Financial ratio analysis can also provide an accurate result of the performance. It is straightforward to compare financial results of different firms with relatively different sizes, and it can be used by all companies (Dess, Gregory, & Lumpkin, 2003). The empirical indicator variables are sales growth rate, after-tax net income growth, return on sales, and profitability” (Li & Zhou, 2010; Wang, Jen & Ling, 2010). There is no public listed direct-selling company in China, which means the financial figures for most of direct-selling companies in China are not accessible. Therefore, using sales value as the proxy for firm performance measure is appropriate in my research because it is published in research reports most of the time.

Before analyzing these research questions, this research first reviews the drivers for industry growth. The drivers are the customers’ needs too, which are also the drivers for growth in the industry. Understanding this can help understanding interview information with executives.

China Healthcare Industry economic environment

---Drivers for Industry Growth

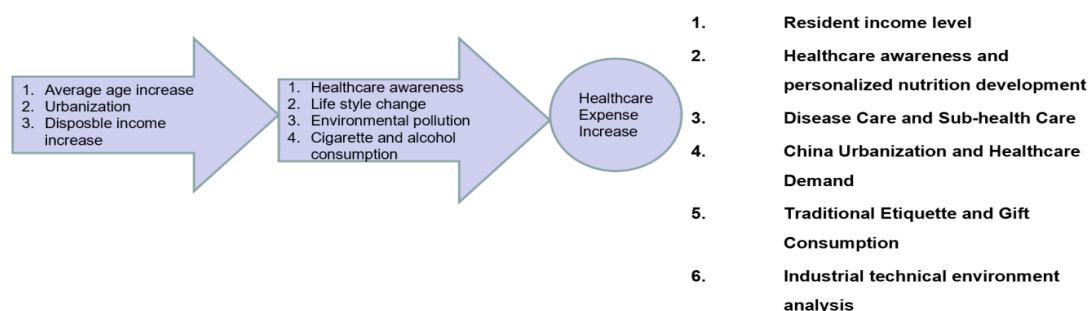


Figure 16: Analysis of industry growth drivers

Data source: Zhongshang Industrial Research Institute; The Market Status and Development Prospect of Health Food Industry in China [J]; China Business Information Network; January 28, 2022

There are six major drivers for the healthcare product industry growth in China. They are resident disposable income level increase, healthcare care of their and personal nutrition development, disease care and sub health care, China urbanization and health care demand, traditional etiquette, and gift consumption, and industrial technical environment analysis. Understanding the drivers of industry growth provided directions for analyzing direct-selling companies performing better than traditional ones.

1/ Resident disposable income level

The average income of Chinese residents was RMB 28,228 (about \$4,000) in 2018, increased 8.7% compared to that in 2017. The income level of Chinese residents has a significant impact on medical care consumptive expenditure. The level of medical consumption increases with the increase of income. According to Report on Market Prospect and Investment Strategy Planning of China Dietary Supplement Industry (2017-2022)¹⁸, the income of urban residents increases by 1%, the expenditure on healthcare will increase by 1.26%, and the consumption of medical care will increase by 1.53%. For rural residents, if the rural resident income increases by 1%, healthcare spending can increase by 1.54%, and medical consumption will increase by 1.93%. The growth of rural residents' medical consumption is more sensitive to income.

Direct-selling companies pay commissions to their direct sellers every month. The commission is directly related with the quantity and purchase value of customers that direct sellers referred. This is one of the key differences between direct-selling companies and traditional companies. Traditional companies measure their sales by sales values, but direct-selling companies have their customers' names and other personal information in their membership system which enable them to use big data to offer suitable products and services.

2/ Self-care awareness and personal nutrition development

In recent years, the living standard of the Chinese people has been improving, and many families have begun to consume healthcare products. Especially after the outbreak of COVID-19 in 2020, people

¹⁸ Qianzhan Industrial Research Institute. Report on Market Prospect and Investment Strategy Planning of China Dietary Supplement Industry (2017-2022) [R]. www.qianzhan.com. March 12, 2023

have been paying more attention to improving their immune systems. With the “Management Measures for Nutrition Improvement Work” issued by the Ministry of Health in 2010, national health awareness has been raised and development of the entire nutrition industry has been encouraged.

The healthcare industry still faces some challenges. In the past, consumers lacked trust in traditional healthcare products in China and even refused to buy them. Such psychological shadows prevent the development of the healthcare industry in China. The "Management Measures for Nutrition Improvement Work" has clearly declared that the Chinese government will seriously oversee healthcare production, healthcare education, healthcare education guidance, nutrition intervention, etc. And this will be a new force to improve the nutritional status of residents.

Currently, the bottleneck encountered by China's nutrition and healthcare industry is not due to a lack of market nor a lack of products but to a lack of enough healthcare product knowledge-sharing between the suppliers and consumers. It is interesting that the direct-selling marketing method can address these exact customer needs. Improving consumers' awareness of the nutrition and healthcare industry and promoting the development of nutrition and healthcare work is a prime objective now. First, China must educate the people with nutrition and healthcare knowledge and change their concepts of consumption. Given the presence of environmental pollution and the reduction of physical exercise time, people are gradually taking more preventive measures, including getting physical examinations, working on fitness, and buying food supplements. However, according to the data provided by Roland Berger, a management consulting firm, the penetration rate of nutritional supplements was only 20% in 2015 while 50% in the US¹⁹. At the same time, frequent buyers for healthcare products accounted for only 10% of total nutrition consumer consumption in China and 60% in the United States.

A survey of 12,430 consumers by the China Consumers Association (CCA)²⁰ found that only 14% of respondents said they regularly take food supplements, while 60% never or only occasionally do it, which also leads to low penetration rates. Recently, an online shopping channel has helped Chinese consumers easily access globally renowned healthcare brands. With the improvement of health awareness, the country's overall healthcare product penetration rate will increase.

3/ Disease care and sub-healthcare

¹⁹ Roland Berger. Dietary Supplement Industry Development Report (2019) [R]; <http://www.cccmhpie.org.cn/Pub/1757/17525>. September 9, 2020

²⁰ China Consumers Association; Analyze key business opportunities in dietary supplements [J]. Consumer Reports. March 15, 2022

According to a global survey conducted by World Health Organization²¹, only 5% of the world's people are truly healthy, and about 20% of them consult their doctors about their health, while the remaining 75% are in "sub-health" and do nothing. In China, about 15% of the population are healthy, 15% are unhealthy, and 70% are sub-healthy. This means that about 1 billion people in China are in a "sub-health" state. These "sub-health" people can easily get cancer, cardiovascular disease, respiratory and digestive diseases, and metabolic diseases.

China spends 43 billion USD on treating cardiovascular and cerebrovascular diseases every year. Between 2005 and 2015, China lost productivity due to disease, resulting in economic losses of USD 550 billion. From a medical perspective, people in a sub-healthy state can properly adjust by taking food supplement or appropriate healthcare products.

Among a big population of sub-healthy people, many of them might like to introduce quality healthcare products to their friends or relatives if they feel one healthcare product lessened their symptom or helpful for their physical wellness. This is a source for direct sellers and is a main driver for the direct-selling business in healthcare industry.

4/ China's urbanization and healthcare demand

Traditional health risks such as malnutrition and drinking bad water are no longer the main factors affecting health in China. The modern health risks such as smoking, lack of physical exercise, overweight and obesity, and urban air pollution have more impact on the people.

As the problems associated with urbanization affect healthy living, with the increase in per capita income, urban residents attach greater importance to health, and their health needs shift from symptom relief to active healthcare. Besides government-provided medical care, disease preventive education has helped global consumers to become more aware about improving health. Chinese people are more willing to invest in preventive nutrition and health products, because prevention is more economical than the cost of disease treatment.

Urbanization attracts more people to big cities, but there are not very many jobs available for those people. Direct-selling business represents an entrepreneurial opportunity for those people.

5/ Traditional etiquette and gift consumption

China has a tradition since ancient times of holding various ceremonies in which it is very important

²¹ World Health Organization. Overview of sub-health problems [R]. Life Times. 2010

to pay tribute to the host or guests. Gifts have become an important channel and an indispensable social form for expressing respect, transmitting information, and enhancing relationship. Food supplement and healthcare products are the mainstream of gift consumption, and products such as melatonin and multi-vitamins are the most popular among all gifts.

At the same time, benefiting from the implementation of the domestic demand policy and the adjustment of the economic structure, as well as the holding of large events such as the World Expo and the Asian Games, China's gift industry looks vibrant and is booming compared to the world depressed gift market. The annual growth rate remains above 20%.

The gifts usually are given from a friend to their friends or relatives, which also drives healthcare industry sales.

6/ Industry technical environment

As a high-tech industry in China, the biotech industry is closely affecting current social problems like food, health, the environment, and resource problems faced by humans today. In the application field, the nutrition and healthcare industries have applied a large number of advanced technologies and research results in developing new products. For example, the use of biotech to separate milk calcium and lactoprotein from milk and the extraction of natural beta-carotene from salt algae are widely used in pharmaceuticals and functional foods.

At present, technological development has gradually become an important core competitiveness of China's healthcare industry. According to the Report of Market Prospective and Investment Strategy Planning on China Dietary Supplements Industry²², the number of intellectual property rights in health foods has grown from 887 cases before 1997 to 11,402 in May 2016, with a growth rate of more than ten times. At present, according to the development status of China's health food industry, the establishment of a technology research and development service platform based on the "management, research, and development" can quickly integrate the independent and scattered enterprises' capabilities and resources, so that these resources are concentrated on a safety, scientific and effective platform to protect the scientific research results and economic benefits of the enterprises. Meanwhile, it will maximize the technical exchange, new product development cooperation, and resource integration within the industry and play an important role in promoting the health food industry.

²² China Economic Industrial Research Institute. Report of Market Prospective and Investment Strategy Planning on China Dietary Supplements Industry [R]. China Economic Information Network. March 10, 2020

Rohit and John conducted interviews²³, which supports market cultures are associated with the best performance, followed by ad-hocracy cultures. Both clan and hierarchical cultures are associated with poor performance, the latter being worst as hypothesized. The univariate tests are significant for the market and hierarchical cultures, while others hardly miss significant because the sample size is relatively small. The marketers' customer orientation as reported by customers is related positively to business performance and the customers' perceptions are significantly more important than the marketers' own perceptions. In fact, there is only weak agreement between the customers' and the marketers' perceptions of customer orientation. Organizational innovativeness is related positively to performance. It is interesting to note that this relationship, along with that of customer-reported customer orientation and performance, is the second strongest reinforcement of Drucker's concept that customer focus and innovation should be the reason a business exists. (Rohit, John 1993)

Rohit and John conducted a research program spanning a decade and a dozen countries. The study was framed in an extended model of competing values of organizational culture and focused on how organizational culture, market orientation, and innovativeness affect the performance of firms competing in business-to-business markets. Coefficients of competitive and entrepreneurial cultures are positive, with competitive being slightly higher. Coefficients of bureaucratic and consensual cultures are negative, with consensual the lowest. A participatory atmosphere that encourages communication, distraction and trust is associated with better performance. In terms of its impact on performance, organizational innovation is the most well established among our independent variables. It has the strongest single effect and the largest positive coefficient. Market orientation had a positive sign but was not significant. (Rohit, John, 2004)

After considering Rohit and John's research, the paper collected more literatures related to the topic. The literature review yielded five dimensions which are closely related with the research question. The five dimensions are organization behavior, strategy, marketing, information technology, and social factor.

1/ Organization behavior

A/ Training and meeting frequency and quality for uplines

²³ Rohit Deshpande' A, John U. Farley B. C. Organizational culture, market orientation, innovativeness, and firm performance: an international research odyssey [J]. Harvard Business School, Boston. 1993(21), p63

Direct sellers (Distributors) of direct-selling companies actually play three different roles. They are consumers, retailers, and recruiters. Every direct seller (distributor) is a previous and current consumer of the company. After being "referred" by a distributor, an ordinary consumer becomes a member and is entitled to purchase commodities at membership prices and to solicit other consumers. The direct seller who recruits a new distributor is called an "upline" and the recruited distributor is a "downline".

Distributors are members of direct-selling companies. Their income comes from two sources. First, a distributor makes a commission on products sold by him, usually around 30% of the retail price. Second, once they recruit a certain number of downlines, they will receive a promotion to "director", then the distributor can earn royalties (commissions) from the sales of their downlines, as well as from the sales of people recruited by their downlines. This royalty ranges from 3%- 20%, depending on the position that a distributor achieves in the ladder of success, pyramid, a hierarchical scale of status. The more downlines an upline recruits, the higher the position of the upline and their income.

In traditional business models, employees usually do not feel safe about their positions and cannot completely trust each other because people working with them can be seen as competitors who can steal their job once they can do a better job. The direct-selling model is different. If you want to succeed, you have to help your downlines succeed too. When they help their downlines make money, they not only get a sense of achievement but also make money from their downlines' performance.

The relationship between uplines and downlines in direct-selling model is different. It based on cooperation rather than competition. The success of downlines strengthens the status of their uplines and increases the latter's share of royalties. Uplines voluntarily play active and multiple roles in training and assisting their downlines.

A study conducted by Dermol and Ater (2013)²⁴ confirmed "a strong relationship between supervisor support and the volume and quality of training as well as between supervisor support and organizational incentives for training transfer. Organizational incentives are directly related to both studied company-level training outcomes, that is, the acquisition and interpretation of information, and cognitive and behavioral changes. In addition, they are also indirectly related to corporate performance

²⁴ Dermol, Ater. The effect of implementation intentions on transfer of training [J]. European Journal of Social Psychology. 2013(5)

by encouraging cognitive and behavioral changes”.

Based on the literature review, the relationship between upline support and sales performance and job performance is strong.

Job satisfaction is “the extent to which an employee feels positively or negatively toward his or her job”²⁵. From a sales perspective, job satisfaction is considered to be a salesperson's emotional state relative to several work factors, including the supervisor, the job itself, salary opportunities and colleagues. (Churchill et al., 1976)

The support of uplines (leaders) is considered to be critical in the direct-selling industry since salespersons normally deal directly with their uplines rather than managers most of the time, particularly for moral support, motivation, training, development and mentoring purposes. Research shows that multi-level marketing organizations (MLMs) encourage uplines to help downlines to succeed, sometimes even at the cost of their own success (Biggart, 1989).

We believe that when considering the personal development plan of senior executives as an interview question, should also discuss how the company implements the contemporary performance measurement (CPM) system in its organization. A literature review of 76 empirical studies found that a CPM system has a significant impact on human behavior, organizational ability, and performance. These data support the view that CPM system plays a key role in the process of strategy, communication and management, resulting in organizational capabilities that make the organization overperformance. (Santos, et al, 2012)

From the interviews, we know that the quality and frequency of training and meetings of direct-selling companies for uplines (leaders) are better and more frequent than those of traditional Chinese sales companies.

B/ Individual development plan for senior executives

The second factor for direct-selling companies' success is their investment in individual development plans for senior executives.

“An empirical study of employees from ten companies found support for the basic hypothesis that

²⁵ Churchill, L. et al. Tumor necrosis factor: activity dependent expression and promotion of cortical column sleep in rats [J]. Neuroscience, 1997, p71-80

employee responses differ under the four types of relationship. In general, employees performed better on core tasks, demonstrated more citizenship behavior, and expressed a higher level of affective commitment to an employer when they worked in an overinvestment (by the employer) or mutual investment relationship than when they worked in a quasi-spot-contract or underinvestment relationship. These results were achieved even after controlling for several other variables that could influence employee performance and attitudes” (Annes, Jone, and Angela, 1997).

Semuel, Siagian & Octavia (2017)²⁶ concluded that leadership (indicated by human capital and ethical practices) affects directly the company's performance (demonstrated by the growth rate and the company's rate of return on sales). Leadership also affects company's performance indirectly through innovation. This shows that the development of executives (leaders) has a positive effect on a company's performance and bolsters the importance of providing individual development plans for senior executives.

Peni (2014)²⁷ conducted a study that focused on the relationship between a Chief Executive Officer (CEO) and chairman's characteristics and the company performance. “Based on a five-year sample of S&P 500 firms, the findings reported in this paper demonstrate that firms with female CEOs/Chairmen may outperform firms with male-led firms. The age of the CEO is suggested to be positively related to ROA, while the chairmen age has a negative relationship with Tobin's Q of the firm. Executive experience is positively associated with Tobin's Q and ROA”. “Finally, executive quality is reported to enhance firm performance”. “Moreover, it has been reported that the quality of executives is positively correlated with the success of enterprises, which further shows that the selection of senior executives is very important”. Therefore, having appropriate executive personal development plans is positively correlated with corporate performance. Most development plans involve training. The goal of each training course is to add value to an employee's performance. Enterprises must consider the special needs of individuals and enterprises when designing training programs, and at the same time have clear goals and objectives.

²⁶ Semuel, H., Siagian, H. and Octavia, S. The Effect of Leadership and Innovation on Differentiation Strategy and Company Performance [J]. *Procedia - Social and Behavioral Sciences*. 2017, 237(June 2016), pp. 1152–1159

²⁷ Sadia Peni. The relationship between the CEO or chairman and corporate performance [J]. *Molecules Journal*. 2014(19), pp137

Elnaga and Imran (2012)²⁸ conducted a study focused on the role of training in enhancing the performance of the employees. Training plays a vital role in the building of competencies of new as well as current employees to perform their job in an effective way. It also prepares employees to hold future position in an organization with full capabilities and helps to overcome the deficiencies in work-related areas. Training is considered by enterprises as an investment, which can not only bring a high return on investment, but also help enterprises gain a competitive advantage.

Leadership plays a more important role in their performance due to the pyramid structure and business model characters of direct-selling companies. Most direct sellers frequently meet their uplines and have training seminars every week. This represents a huge opportunity for direct sellers to develop their capabilities in sales, which differs greatly traditional companies.

Employees are referred to as the rare, non-imitable, and valuable resource of a firm, and the success or failure of any business mainly relies on its employee performance. Among them, executives are the most valuable and important employees. It supports filling the gap between required performance and actual performance, that is, between expected performance and actual employee performance. Training needs refer to any deficiencies in performance that can be mitigated through appropriate training. There are different methods of overcoming deficiencies in employee performance on job, and training is one of them. Particularly training develops skills, competency and ability, and ultimately improves employee performance and organizational productivity.

“Training programs are the stimulant that workers require to improve their performance and capabilities, thereby increasing the productivity of an organization. Therefore, training should be designed on the basis of firm specific needs and objectives. Effective training is a thoughtful intervention designed to gain the learning necessary to improve employee performance. The research affirmed the proposition that training has a positive impact on employee performance” (Elnaga, Imran, 2013).

Qin and Si (2011)²⁹ conducted a study on "the relationship between the educational structure of board members and corporate performance" with SPSS 16.0 in 2011. The empirical study of this paper

²⁸ Elnaga A, Imran A. The effect of training on employee performance [J]. *European Journal of Business and Management*. 2012, 5 (4): 137-147

²⁹ Qin and Si. The relationship between the educational structure of board members and corporate performance [J]. *Economic science*. 2011(5), p8

shows that there is no significant correlation between the educational background of a chairman, other executive directors, and independent directors and corporate performance. But, when introducing variable board size, we find that the proportion (relative number) of directors with doctoral degrees and master's degrees is positively correlated with corporate performance. However, the scales of directors with bachelor's degree and directors with college degree are not significantly correlated to corporate performance. So, the more directors with high educational background in the Board, the better it is to improve corporate performance”.

Research by Kim, Wong, and Eng (2005)³¹ and Kotabe, Srivivasan, and Auulakh (2002)³² supported this view. The marketing ability of direct-selling companies, especially the marketing proficiency and the marketing intensity of multinational companies are stronger than those of domestic Chinese companies.

Multiple-level (ML) respondents demonstrated significantly greater commitment than the single-level respondents. While single-level salespeople equate success with the results achieved in selling products to customers, ML salespeople achieve success through internal personal satisfaction by effectively recruiting, training, and motivating others to form a productive and growing organization. (Brodie, Stanworth and Wotruba, 2002)

In short, training is imperative to bridging the gap between the performance of existing employees and the expectations of employers. Although traditional companies also have individual development plans, they do not have direct sellers. The number of people involved in the plans is less than those in direct-selling companies. The senior top lines in direct-selling firms are all in the plans. In traditional firms, only a very few top leaders have the opportunity to be provided with individual development plans.

C/ Corporate culture

The third success factor of direct-selling companies is corporate culture.

³¹ Kim, Wong, and Eng. The synergistic effect of market orientation and learning orientation on organizational performance [J]. Academy of Marketing Science Journal. 2005,27(4)

³² Kotabe, Srivivasan, and Auulakh. The marketing strategy choice of multinational corporations in emerging markets [J]. International Business Daily. 2002,11(02)

Culture is a set of shared assumptions and understandings about organizational functioning. (Rohit Deshpande and Frederick E. Webster, Jr., Jan., 1989)

In the comparative management approach, culture can be viewed as a variable exogenous of the firm, influencing the development and reinforcement of core beliefs and values within the organization. From the perspective of contingency management, culture is regarded as an endogenous independent variable of an enterprise, which is composed of the beliefs and values of the organization and its internal development (Deal and Kennedy, 1982; Peters and Waterman, 1982). In the contingency model, the measurement method of enterprise performance is significantly and systematically influenced by the common values, beliefs, identities and commitments of organization members.

As Smircich (1983)³² noted, researchers believed that cultural artifacts “can be used to build organizational commitment, convey a philosophy of management, rationalize and legitimate activity, motivate personnel, and facilitate socialization”. Culture is a lever to be used by managers to implement strategy and to direct the course of their organizations more effectively (Rohit Deshpande and Frederick E. Webster, Jr., Jan., 1989).

A company cannot build up a culture by only hiring several employees. It requires the acquisition of an entirely new organization. In this regard, organizational competence is an attribute of "firm specificity" and "social complexity" that "exists in corporate culture and employee networks" (Amit and Schoemaker, 1993; Collis, 1994); Organizational culture is the representation of the values and assumptions which is recognized by the organizational members and newcomers and also evidenced by the ways in which people behave during employments (Backhaus & Tikoo, 2004; O'Reilly, 1989). Compared with resources, capabilities are intangible and unobservable. They are resistant to money

³² L Smircich. Cultural artifacts [J]. Administrative Science Quarterly. 1983a, p345

valuation and cannot be traded except for the overall capabilities (Hoopes, Madsen et al. 2003). It is continually evolving and plays an important role as the standard of behavior for employees to position themselves among other employees.

On the one hand, organizational culture has a positive impact on employee's commitment (Deal & Kennedy, 1982; Ven, Peters & Waterman, 1983). Goodman, Zammuto and Gifford (2001)³³ investigated organizational culture and employee's commitment and justified that the culture and commitment are tied together, and they also confirmed that the levels of commitment are affected by specific types of organizational culture.

By ensuring the focused Employer Branding (EB) and efficient communication of organizational culture (Ind, 1997), organizational culture can be boosted by EB and help firms to create competitive advantages brought by higher levels of retention (Wheeler, Richey, Tokkman, & Sablinski, 2006). Sengupta, Bamel & Singh (2015)³⁴ confirmed this positive impact from organizational culture on retention.

Moreover, Alvesson (2012)³⁵ claimed that individuals may have increased job satisfaction by feeling empowered within a particular company where they can identify the preferred organizational culture. Backhaus & Tikoo (2004)³⁶ also proposed an "Employer Branding Framework" in which the alignment between employees' beliefs, attitudes and values match and organizational core values may influence job satisfaction and thus impact the employee retention if employees recognize and accept the representative organizational culture through EB.

³³ Goodman, Zammuto and Gifford. The Business Performance Outcomes of Market Orientation Culture and Behaviors [J]. Perez. 2001,13, p25

³⁴ Sengupta, A., Bamel, U., & Singh, P. Value proposition framework: implications for employer branding [J]. DECISION, 2015, 42(3), 307–323.

³⁵ Mats Alvesson, Mats Alvesson. Understanding Management · A critical introduction [M]. Central Compilation Press. 2012(9)

³⁶ Backhaus, K., & Tikoo, S. Conceptualizing and researching employer branding [J]. Career Development International. 2004, 9(5), 501–517

In order to form a unique organizational culture, which is impossible for competitors to create, enterprises can let employees touch the employer's brand value, thus providing a unique culture generated automatically around the enterprise's goals (Melewar, Gotsi and Andriopoulos, 2012). This is seen as an effective way to increase retention and employee willingness to stay in the company (Inabinett, 2014; Melewar et al., 2012). Other studies have shown that organizational culture may change employees' behaviors (Tyler, Blade & L, 2000), motivate them to make commitments and "live the brand" (Haslam, Powell & Turner, 2000; Ind, 1997; Knox & Maxwell, 2009).

Direct-selling companies usually introduce their culture at the very beginning of training sections. Every time a direct seller wants to enroll a new direct seller, and he will first introduce the corporate culture. Direct-selling is a relationship marketing. People with close relationships tend to have similar culture and believes. A direct seller needs to first believe in the culture of a direct-selling company before he wants to join it. Using a sample of this article, "creating competitive advantage through intangible assets: The direct and indirect effects of corporate culture and reputation", it found that culture enhances financial performance. (Flatt, 2008)

2/ Marketing

Market Orientation

Direct-selling (DS) marketing is market and entrepreneurial orientated. Compared to a traditional business-to-business sales model, DS makes use of a business-to-customer model, which has the shortest distance between the company and customers. This model provides direct and frequent communication and interactions which enables the company to understand and access the latest needs and feedback from customers.

Tina and Maria (2011)³⁷ examined how market-oriented and entrepreneurial-oriented behavior drives firm performance in an emerging markets context. Using 170 Austrian exporters to Central and

³⁷ Tina and Maria. Customer-led and market-oriented: a matter of balance [J]. Strategic Management Journal. 2011, vol.20, pp115-116

Eastern Europe, the author tested a conceptual model that included market-oriented and business-oriented practices as predictors of performance. The results indicate that both market-orientated and entrepreneurial-oriented strategies have positive performance effects in emerging markets. Companies are encouraged to adopt market-oriented and enterprise-oriented strategies to achieve better results in international and emerging markets. (Tina and Maria, 2015)

The marketing literature suggested that levels of job satisfaction, organizational commitment, and the overall performance of employee will be determined (at least in part), by the extent to which an organization can be viewed as “market oriented”. Narver and Slater (1990)³⁸ defined this concept in terms of several behavioral levels, namely customer orientation, competitor orientation, and inter-functional co-ordination and argued that all three such strands are of equal importance. Treating distributors as internal customers can greatly improve senior executives’ understanding of how and why individuals choose to leave an organization. (Msweli, Sargeant, 2018)

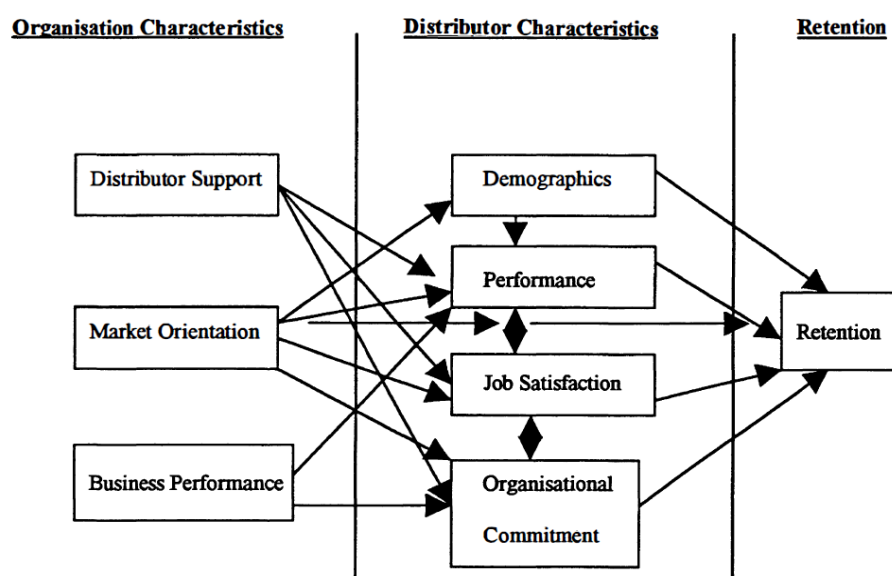


Figure 17: Determinants of Distributor Retention in Network Marketing Organizations

Data source: Compiled according to the analysis contents

By investigating the organizational characteristics of network marketing (NWM) companies, it is can be seen that market orientation is the best discriminating variable. The results clearly indicate that there is a definite correlation between organizational characteristics, distributor characteristics, and distributor retention, and all the hypotheses were confirmed. (Msweli, Sargeant, 2015)

³⁸ Narver, J., S. Slater. The effects of a market orientation on business profit-ability [J]. Journal of Marketing. 1990,54, pp20-35

Marketing

---Branding value, customer service, and product support

In terms of marketing channels, the strengths of traditional marketing channels require less investment in fixed assets. The weaknesses include weak controllability, fierce competition, and unclear segmentation. Strengths of direct-selling channels are wide coverage and flexible promotion. Weaknesses make it difficult to obtain a direct-selling license from the government, complicated legal and regulation risk management and high sales personnel commissions. Nowadays, both traditional marketing companies and direct-selling companies are adopting e-commerce in their businesses. Strengths of e-commerce channels include convenience and flexibility, less fixed investment, and fast brand promotion; Weaknesses are limited by the traditional consumption concept, the logistics process is difficult to control. E-business pattern requires companies to elevate the product R&D, manufacturing and supply chain. It requires optimal control, sales, delivery time, quality, cost, and service. Companies shall strengthen their capability from pure product sales to "health advisory services" and expand WeChat, Tik Tok, and Kuaishou marketing.

A brand is "a name, term, logo, symbol or design, or a combination of them, designed to identify and distinguish one or a group of seller's goods and services from those of competitors" (Schneider, 2003). Customers loyal to one brand are less likely to switch to another.

In the literature, the positive reputation of enterprises in customers and suppliers is also considered as a source of competitive advantage (Porter, 1980). To some extent, the positive reputation of a particular company depends on these historical events, which may not be completely imitable. In addition, positive corporate reputation can be regarded as an informal social relationship between enterprises and key stakeholders (Klein & Leffler, 1981).

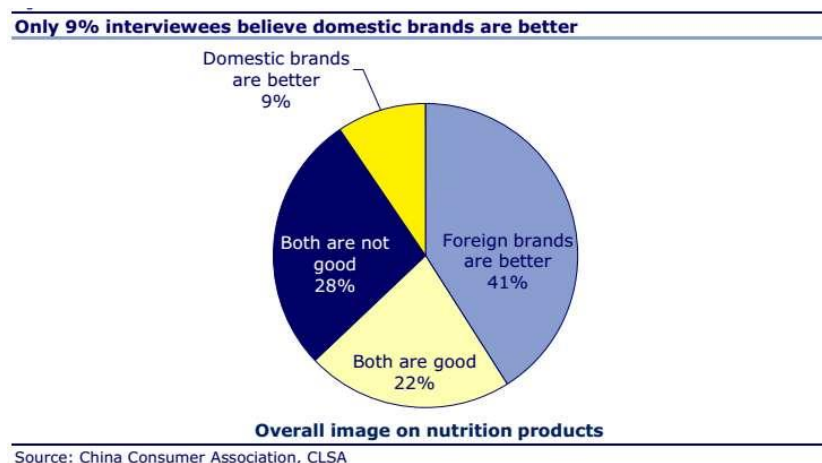


Figure 18: Overall image on nutrition products

According to a survey by the China Consumers Association³⁹, only 9% interviewees believed domestic brands are better than foreign ones. Direct-selling companies with foreign brands have distinctive advantages in their branding value, which is another success factor.

Building brands to show strategic direction of a firm is one of the most critical and forefront issues for firm's top management (Chernatony and Riley, 1998; Mosmans, 1996; Mosmans and Vorst, 1998; Urde, 1994, 1999). In line with the corporate management, the strategic brand management starts with a brand vision (Chernatony and Riley, 1998; Mosmans, 1996; Urde, 1999). The brand vision provides an initial direction of what and how business activities should be carried out.

The most popular "brand equity model uses product market performance results over the same period, such as price, market share, revenue and profit premium, to assess the financial impact of the brand". Comprehensive analysis shows that brand equity is positively related to current financial performance.

Direct-selling companies have a character which traditional companies do not have. In direct-selling companies, their direct seller are also their employees in sales. They receive commissions from direct-selling companies, and they are also customers for the company.

The term "employer brand" (EB) refers to the differences between an employer and its competitors. Organizations should understand this and see it as a long-term human resource management strategy that interacts with the right people and communicates a consistent image internally and externally (Jonze& Ö ster, 2013). The results of the conducted empirical research have proven the existence of a

³⁹ The China Consumers Association. Comparison of Chinese consumers' attention to domestic brands and overseas brands in 2021[J]. Insight and Info. November 12, 2021

statistically significant positive influence of employee recruitment on satisfaction, while the mediating influence of the employer brand has also been fully confirmed. (Slavkovic, Marko, 2018)

Specifically, on the one hand, EB improves retention of existing employees, as it has a positive impact on employees' perceived loyalty, satisfaction, affinity and differentiation from other competitors (Gilliver, 2009; Ito, Brotheridge & McFarland, 2013; Chhabra & Sharma, 2014; Russell & Brannan, 2016; Cable & Graham, 2000; Jain & Bhatt, 2015). On the other hand, organizations benefit from increased interest and brand attractiveness from potential employees in the labor market (Chhabra & Sharma, 2014).

The first definition of EB is defined (Ambler & Barrow, 1996) as “a package of benefits which is provided by an employer during employment”. Backhaus & Tikoo (2004)⁴⁰ stated that EB is “the process in which an identifiable and unique identity as an employer is built.” EB was proposed by Sivertzen, Nilsen & Olafsen (2013)⁴¹ as “the development of an organization’s image and reputation as a prospective employer, and it would affect its ability to retain employees”. According to the Figure 19, potential employees form employer brand image through brand association, which is a result of an enterprise's employer brand.

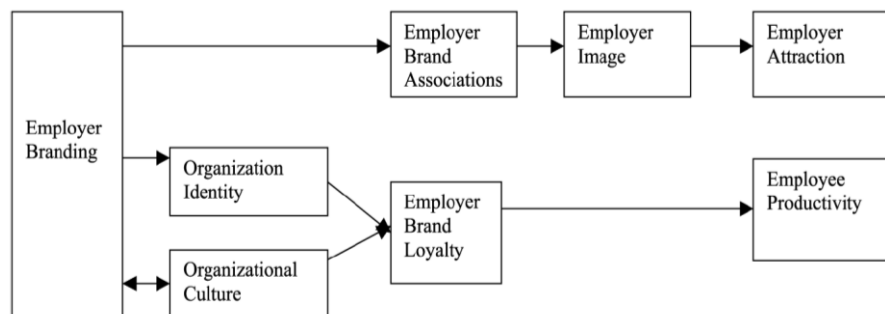


Figure 19: Employer brand image

Data source: Compiled according to the analysis contents

EB should be taken as the external and internal reflection of organizational core values and represent organizational culture. Urde (2003)⁴² claimed that the EB is made up by organizational core values which is rooted within organizations and internally implemented before EB. By using the core

⁴⁰ Backhaus, K., & Tikoo, S. Conceptualizing and researching employer branding [J]. *Career Development International*. 2004, 9(5), 501–517

⁴¹ Sivertzen, A. M., Nilsen, E. R., & Olafsen, A. H. Employer branding: Employer attractiveness and the use of social media [J]. *Journal of Product and Brand Management*. 2013, 22(7), 473–483.

⁴² Urde, M. Core value - based corporate brand building [J]. *European Journal of Marketing*, 2003, 37(7/8), 1017–1040.

values of brand personality characteristics, enterprises can more effectively establish attractive employer brand. In addition, it was found that core values are important to the organization, so they should be rooted in the organizational culture (Burmahn, Zeplin and Riley, 2009; Gilani, Hasan, 2016), and reflected in the organization's business strategy (Rachchige and Robertson, 2013; Louro and Cunha, 2001; Mark, Patricia, 2009). Value propositions are identified as the backbones of EB. These propositions need to be generated to meet the expectation from both current and potential employees, in regard to emotional and rational benefits (Kimpakorn & Tocquer, 2009).

The transformation from a capital-intensive to knowledge-driven economy has marked the beginning of a new epoch in business doing. The results of an empirical study proved that employee recruitment has a statistically significant positive effect on satisfaction, and the mediating effect of employer brand has been well confirmed. (Slavkovic*, Pavlovic and Simic, 2018)

3/ Strategy

A. R&D and Innovation

The role of products is crucial in boosting a healthcare firm's competitiveness because new products usually add new functions to symptom of customers and new products usually have high margin than old ones. "Product innovation is increasingly valued as a key component of the sustainable success of a business's operations" (Henard and Szymanski, 2001). "Of the 24 predictors of new product performance investigated, product advantage, market potential, customer satisfaction, pre-development task proficiency and dedicated resources have the most significant impact on the average of new product performance" (Henard and Szymanski, 2001). Direct-selling companies continue to invest in developing new products to meet the needs of their customers. Since most of them come from countries that are more mature in the field of sustainable growth, they can fulfill their social responsibilities while meeting these needs.

Direct-selling companies invest large amounts of money in R&D and patent development for new products. This is because their gross margin usually is higher than traditional companies. They leverage the direct sellers' expertise in their sales. Direct sellers first experience the products by themselves, then promote them to next direct seller or customers from mouth to mouth. Their inimitable ways of sales enable their products better meet all customers' needs stated above than traditional companies.

Gunday et al. (2008)⁴³ categorized innovation as follows:

(1) Product innovation; (2) Process innovation; (3) Marketing innovation and organizational innovation.

McAdam and Keogh (2004)⁴⁴ showed that innovation is important to a company's long-term economic development. In order to carry out innovation, enterprises should have an internal environment to promote the flexibility and high speed of change of innovation culture to cope with new opportunities (Undocva, 2013).

The evaluation of innovation performance is based on the speed, implementation, and value of innovation. Innovation is measurable. Measures include the proportion of new products in the total product mix, the number of new products and services, the level of innovation, the improvement of the quality and the upgrading of the system and people's mindset. (Semuel, Siagian and Octavia, 2017)

"Companies with a high R&D effectiveness index (> 1.25) outperformed the average in growth and profitability. These comparisons are shown in Figure below. Although higher profitability would be expected (as it is part of the computation), the magnitude of this difference is surprising. These companies were twenty-two times more profitable. The difference in revenue growth also shows a strong relationship between growth and the R&D effectiveness index. Companies with a high index grew twice as fast as the average from 1988 to 1992" (McGrath and Romeri, 1994).

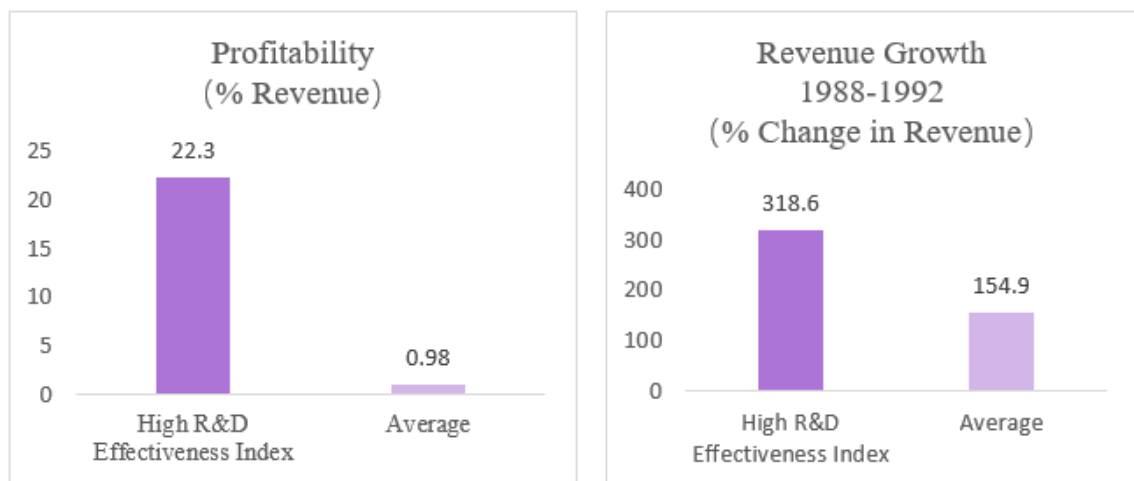


Figure 20: R&D Effectiveness Index Correlated to Revenue Growth and Profitability

Data source: PatSnap. China Research and Development Index CIRD [R]. Songguo Financial Economy. February 8, 2023

⁴³ Gunday, G., et al. Effects of innovation types on firm performance [J]. International Journal of Production Economics, 2008,133, pp662-676

⁴⁴ Rodney Mcadam, William Keogh. Technology and market knowledge creation and idea generation: an integrated quality approach [J]. International Journal of Quality & Reliability Management. 2004,34, pp340-359

Quantitative objective metrics generate numerical indicators of R&D performance using well-defined algorithms that focus on tangible and countable dimensions (Table 11).

Table 11: Quantitative-objective metrics frequently reported in the literature

• R&D effectiveness index =	$\frac{\text{Revenue Generated from Products Introduced in the Last 3 Years}}{\text{Total R\&D Costs}}$
• R&D innovation index =	$\frac{\text{Revenue Generated from Products Introduced in the Last 3 Years}}{\text{Total Revenues}}$
• R&D quality index =	$\frac{\text{Number of Products and Services Produced To Meet Customer Needs}}{\text{Number of Customer Needs}}$
• Percentage of patents or intellectual property that generate “valuables” for the company.	

Data source: Collated according to public information

Input R&D performance using well-defined algorithms that focus on tangible, countable dimensions (Table 11). Input measures like “the number of scientists employed”, “total R&D expenditures” and “investments in research equipment” are commonly used quantitative-objective metrics. Output measures like the “number of patents filed”, “costs reduced” and “number of new products released” are also common quantitative-objective metrics.

B/ Company long-term planning (Strategy)

The essence of strategic management is the development and maintenance of meaningful assets and skills and the selection of strategies and competitive arenas such that those assets and skills form sustainable competitive advantages. The direct-selling company strategy is different in the competitive way and basis. The business running process is a goal setting and execution process.



Figure 21: Business running process

Data source: Compiled based on publicly available information

In the research of Santos et al., through empirical research in 2012⁴⁵, six groups of performance evaluation theories were summarized, including agency theory, contingency theory, resource-based view, cognition and information processing theory, goal setting theory, equity theory, and distribution and procedural justice theory.

Goal setting theory holds that the specific attributes of goals have an impact on performance. More specifically, the use of specific and challenging goals has a greater impact on performance than the use of general and unclear goals. In the literature of performance measurement, the premise and structure of goal setting theory tend to prove the importance of using technically effective performance measurement in performance measurement system.

In direct-selling companies, a goal is set for the company and each direct seller clearly. How many customers need to be enrolled and how much value of purchase to be executed are well planned for the year and after. The typical view is that specific and clear performance measurement and objectives, such as those contained in the performance measurement system, are related to reducing the ambiguity or confusion of strategic direction, which will positively affect the goal commitment, behavior and ultimate performance. All direct-selling companies' training and key performance indicators are directly related with goals, especially sales goals. They use the "increase of customers" as their goal; At the end of the day, it is still "increase of sales". Long-term planning and strategy is a process of setting longer goals and preparing plans to achieve and implementing them.

In direct-selling business, direct-selling companies and direct sellers are an alliance of strategic team. Direct-selling company is a direct seller's employer and also supplier of direct sellers. "There appear to be three factors that are crucial in the choice of a vendor: the ability to meet quality standards, the ability to deliver the product on time, and performance history. The latter is difficult to assess because it presupposes past experience with the vendor and it also subsumes a number of other factors" (Dickson, 1966). In direct-selling business, it is easier for customers to know the performance history because the purchase action is continuously repeated from the beginning.

The strategic partnership is important. In the healthcare industry, such alliances are essential for companies, and is a matter of life and death. This trend is visible in the healthcare industry. Increasing

⁴⁵ Santos et al. Drought evolution at different time scales and its effects on vegetable crops in lowland areas of Czech Republic [J]. Agriculture, forests, meteorites; 2012

competition from offshore brands, producers, shorter product life cycles, and rapidly changing technologies have forced buyers to search for suppliers whose expertise and competence are competitive.

To gain such competitive advantages, both the supplier and the buyer must show commitment to their relationship and invest in a strategic partnership. These partnerships represent a complex mix of trust, openness and commitment (Spekman 1988).

4/ Information Technology

Investment in information technology is the fourth resource that helped direct-selling company to overperformance traditional ones. Lollar, Bheshti and Whitlow (2010)⁴⁶ reported that the use of integrated technology reduces the cost of doing business and improves the response speed to market changes and the efficiency of doing business.

“Life-cycle stages require changes in both operations and management styles”. “Early phases require creativity and informality. Growth phases require emphasis on operational planning, staging, training, optimism, problem solving and stamina. Mature phases require emphasis on efficiency, administration, judgment and conservatism”. During the growth period, sales management is likely to be plagued with temporary shortages, shipping delays, and similar problems. An extended period of time between initial order and delivery may cause customer dissatisfaction with the firm, but not the product in question. In turn, customers may shift to a competitor’s product, thus dissipating pioneering work done to promote product awareness and develop primary demand (Rink & Dodge, 1980). Therefore, a functional IT system and support is very important for important success factor for the company’s overperformance.

IT systems can not only support a company’s operation but also enable knowledge sharing among subsidiary companies in a company group. Most direct-selling companies adopt membership sales model, in which customers buy directly from the company in four ways, phone call, WeChat, lifestyle stores and company official website. These all need strong IT membership system to support cash flow and product flow. Membership enrollment and purchase order placement, direct seller commission payment all require complex IT system to support. Direct-selling enterprises have stable IT system and invest a lot of capital to establish knowledge sharing system with IT system. Compared to companies

⁴⁶ Lollar, J. G., Beheshti, H. M., and Whitlow, B. J. The role of integrative technology in competitiveness [J]. Competitiveness Review, 2010, Vol 20, No. 5, pp36

selling in traditional channel who need to use relatively simply system, direct-selling companies have stronger capability in technology development and application in this industry.

Two global IT and communication capability constructs were recognized based on the organizational information processing literatures and formative measurement models (Kleinschmidt et al., 2010, p. 204)

1/ IT/comm infrastructure:

It refers to a system that provides a variety of interaction and communication methods (webinars, E-mails, video conferences, virtual meetings, data-based websites). The IT/comm infrastructure enhances the company's access ability, centralizes and transforms widely distributed information, knowledge and skills.

2 / IT/ comm program:

The development of communication and information technology enables companies to apply experienced data and methods to create solutions for new product development tasks and other operation functions. These programs are usually complex. For global new product development, it overcomes geographical, cultural, and linguistic barriers and helps to receive and analyze customer needs. It also incorporates customers' input into product design (Song et al., 2012). Recently, with the development of Internet and smart phones, e-commerce is popular in this industry. The development of e-commerce is faster and fiercer, especially the business based on WeChat. It is called "business-at-your-fingertips". This model utilizes the social media networks of WeChat, Tiktok, and Kuaishou. By simply adding friends as potential customers and sharing products in "moments," people can multiply their exposure at a very low cost. Moreover, e-commerce stores don't need to hold endless meetings and team buildings, they are more agile and streamlined. They also make full use of the "fans economy" in the internet age. Direct-selling companies usually have stronger IT personnel in catching such new technology opportunities because their huge number of direct sellers and members. They are more willing to invest in such system for enhancing their relationship marketing.

A paper written by Mohamad and others in 2017 "Does decentralized decision-making increase company performance through its Information Technology infrastructure investment?"⁴⁷ contends that

⁴⁷ A Mohamad, Y Zainuddin, N Alam, G Kendall. Does decentralized decision making increase company performance through its Information Technology infrastructure investment? [J]. International Journal of Accounting Information Systems. 2017,9, P57

Information Technology (IT) infrastructure is a key factor for a firm's sustainability, success, and profitability.

Companies invest more than 4.2% of revenue in IT on average. In IT investment, about 54% of it were invested in IT infrastructure (Weill et al., 2002). High-quality IT infrastructure is a complex combination of technology, processes, and human assets (Barney, 1991). However, once it is in place, it becomes a competitive advantage because it takes a lot of time for competitors to imitate it (Weill et al., 2002).

Table 12: Benefits of IT infrastructure

Table 1
Benefits of IT infrastructure.

Benefits		Performance perspective
1	Reducing cost (Weill and Broadbent, 1998); external linkages with bank payment system (Weill et al., 2002).	Financial perspective
2	Facilitate greater business processing and management (Weill and Woodham, 2002).	Internal business process perspective
3	Source of competitive advantage (Weill et al., 2002); platform for a shared customer database (Weill and Aral, 2004); to reduce time to market for new business initiatives (Weill and Aral, 2004).	Customer perspective
4	To enable future IT initiative and flexibility (Weill and Aral, 2004)	Innovation and learning

Data source: Mohamad, A. et al. Does decentralized decision making increase company performance through its Information Technology infrastructure investment? [J] International Journal of Accounting Information Systems. 2017, 27(June), pp. 1–15

Direct-selling, defined as a sales channel without a fixed retail location, was built on the premise of leveraging an individual's social network. This industry is being redirected by embracing social media. The challenge lies in providing the benefits of face-to-face selling, augmented by social media. A survey of "Top 100 Global Distributors" by Direct-selling News found that Facebook, YouTube and Twitter represent the most widely employed social networks in the industry. While 76% of direct sellers utilize social media for promotional purposes, 55% use it for recruiting new distributors and 42% use it for reactive purposes. Consumers are the most popular target for social media, followed by distributors and communities. Social media has evolved as a driver of strategy, and will become even more important in the future. Customer relationships are improved by listening and responding to customer concerns. The transparency created by social media is enhancing trust and ethical organizational cultures. Finally, consumer brand communities are emerging to increase brand value. (Ferrell, Ferrell, 2012)

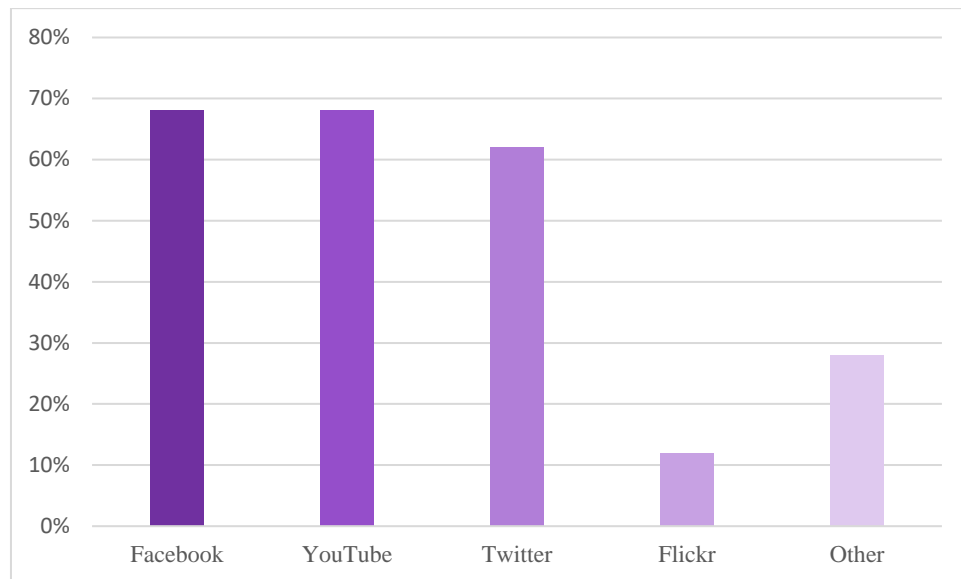


Figure 22: Proportion of Customer relationships in direct-selling industry

Data source: Zhongyan Puhua Industry Research Institute. Analysis on Market Share of Direct Selling in 2021 [J]; ChinaIRN.COM. September 2, 2021

The digital economy has spawned new forms of business, such as online education, online medical care, telecommuting, live streaming, and online tourism, which are booming across the China, providing consumers with richer and more diversified experiences. Below is an example of the sales on Chinese Black Friday and Double Eleven. (Nov. 11th 2021)

According to the Digital China Development Report (2020) released by the Cyberspace Administration of China⁴⁸, the added value of core industries in the digital economy has also risen to 7.8% of GDP. According to a report on business revenues from China's data centers in 2020, as well as those concerning cloud computing, big data and the 'Internet of things' soared by 22.2%, 85.8%, 35.2% and 17.7%, respectively year-on-year.

⁴⁸ Cyberspace Administration of China. Digital China Development Report (2020) [R]. www.cac.gov.cn. June 2, 2021

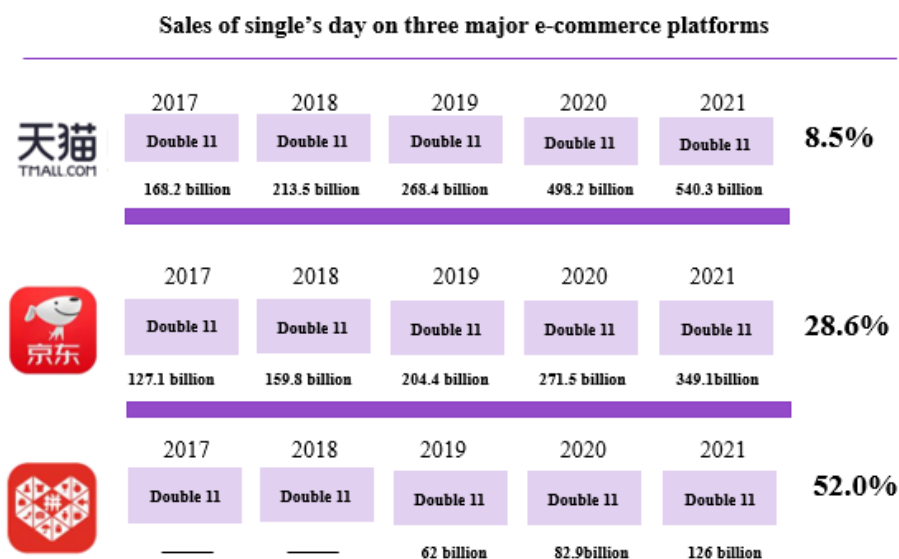


Figure 23: Sales of single's day on three major e-commerce platforms

Data source: Compiled according to the public information

From the Figure 23, we can see the e-commerce is a booming channel for sales. With the growth of this channel, the role of IT is changing from supporting department function to front-line sales and marketing role in China.

Outline of the 14th Five-Year Plan (2021-2025) sets developing digital industries as a key task for the next five years, aiming to raise the GDP proportion of the added value generated by core digital economy industries from 7.8% in 2020 to 10% in 2025.

In order to achieve this goal, it is necessary to reconstruct the healthcare industrial system, deepen cooperation in the industrial chain, effectively integrate online and offline resources, and give full play to the advantages of big data and rich application scenarios.

5/ Social Factors

Tate suggested three interconnected strategies: ethical and social performance, social innovation, and sustainable development. The social resource-based view presents a conceptual framework composed of social and ethical performance, social innovation and sustainable development and their connections. The social and ethical performance may stimulate or repress the development of an active social policy that is reflected on the real and perceived performance of an organization, assuring its social legitimacy. The social innovation provides answers to the escalating social challenges that are mostly considered insolvable due to the failure of the conventional solutions and the paradigms that permeate society. Social innovation refers to the “business” of living labs that has sought to build

stronger relationships, expanded the scope of the existing relationship, where social actors are encouraged to interact more broadly and deeply with each other by accessing and combining new knowledge, whether they are tacit and explicit. As a consequence, the social and ethical performance would make possible identification and or creation of market opportunities that arise from the transformation of the social values to meet various social needs (Phills Jr. et al., 2008; Mulgan, 2010; Maree; Mertens, 2012).

In addition, Tate adopted the sustainable development, as defined by the sustainability tripod concept – Triple Bottom Line (Elkington, 2004), such as: the connective, social, economic and environmental variables, which formed the basic tripod upon supporting the concept of sustainable development.

The sustainable development involves a long-term shared vision that translates it into a conscious social strategy and allows the organization to perpetuate in a long run (Hart, 1995; Dowell, 2010). In addition, sustainable development has been many times considered as an implicit objective of any innovative social action. This is seen in the Brazilians living labs, specifically in relation to long-time horizons, where frequent interactions and high transparency that mobilize actors around a social strategy aimed at strengthening own laboratory goals.

Social complexity is the last reason why enterprise resources are not completely limitable, because they can be very complex social phenomena that are beyond the ability of enterprise systems to manage and influence. When the competitive advantage is based on such a complex social phenomenon, the ability of other enterprises to imitate these resources is greatly constrained.

A variety of company resources can be socially complex. For example, the interpersonal relationship between company managers (Hambrick, 1987), corporate culture (Barney, 1986), company reputation between suppliers (Porter, 1980) and customers (Klein, Crawford & Alchian, 1978; Klein & Lefler, 1981).

“Direct-selling works on the principle of selling face-to-face. This economic transaction functions on the existing cultural framework, that is, the connection between the individual and society as a whole. Many aspects of direct-selling strategy such as word-of-mouth promotion and customers being distributors emphasize the dependence of individual social relationships on direct marketing. The reliance on individual-societal bond accounts for the lucrative opportunity, this strategy provides in a place with perfervid ties between individual and the society as opposed to weak ties. The strong ties

between the individual and society are a resultant of many institutions operating in the society such as family system (nuclear or joint), education system and various other aspects that are affected by the norms of the society. The institutions are a result of many historical experiences that a society undergoes, making these institutions ‘locked-in-history’. These institutions are taken into account when a country is understood as individualistic or collectivist” (Malik, 2012).

“Hofstede gave the example of a self-concept that differs from the consequences of individualism and collectivism in the context of religious or ideological shifts”. “In Western individualist societies, converting oneself is a highly individualistic act; If one would choose to convert, it is unlikely that anyone would follow not even the close relatives”. However, in a collectivist society that it would be “matter of deference to the powerful, rather people have a sense of collective identity that makes it only natural that they should change their views”. “They are tied in a value system by majority issues with strong moral implications ”.

This example also provides an insight to the operation of direct-selling in collectivist countries. China is a collectivist country. If a member of the community is the consumer as well as distributor of a product, the other members of the community consider themselves obliged to at the least try the product. The notions such as “relatives and friends should help each other”, “economic relationships being more often than not being linked with noneconomic relation” and “group orientation” come into being. People found that they have to buy products because of factors of respect and mutual bonding. Direct-selling strategy seems to exploit the “intimacy and control” that is more profound in collectivist countries than individualistic countries.

An important aspect of collectivist countries is the trust factor existing in a group. This is the circumstance for China’s healthcare industry. “Trust involves the predictability and obligatory nature of limitations on future choices”. So, when a trusted member of the community recommends a product, a person is bound to assess the product for himself. Another factor that the strategy of direct-selling benefits from is the element of positiveness, which exists in personal relations.

In addition to understanding the advantageous position that direct-selling occupies in collectivist countries, the elements of "intimacy, control, trust and positivity" are more impregnated than in individualistic countries (Malik, 2012).

The literature review provided knowledge of factors which impact a healthcare company’s success. In order to make a scientific comparison of these factors’ impacts on direct-selling and traditional

companies and to better answer the research question, the paper reviewed theories related to the question analysis.

Theory Review

The fundamental of companies' strategic management is to establish and sustain competitive advantages (Barney, 1991; Teece et al., 1997). The paper reviewed theories related to establishing and sustaining competitive advantages, and found several theories strongly related to the research. They are the Industrial Organization Theory, the Resource-based View, Social Resource-based View, Dynamic Capabilities, and Approach and Purchasing Strategy Theory.

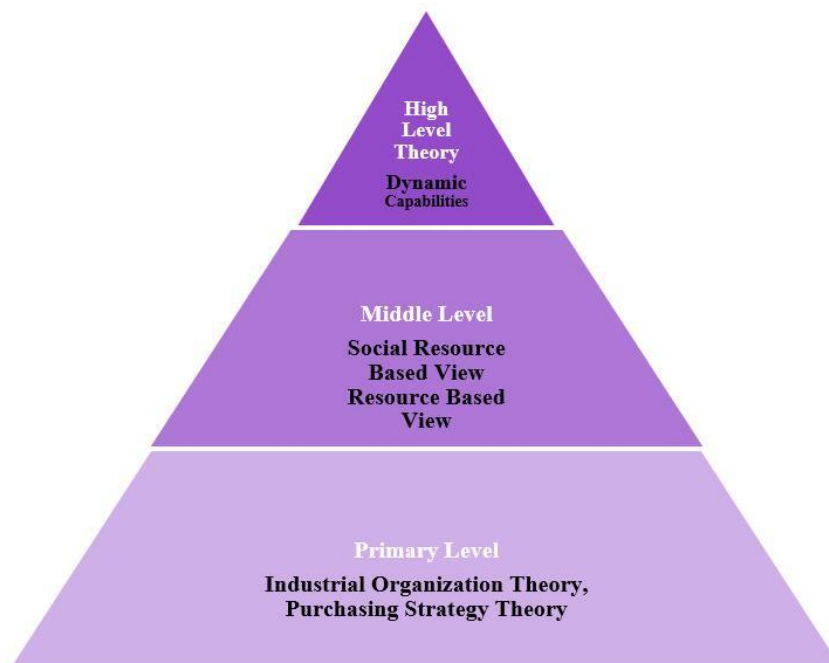


Figure 24: Theories in the strategic management area

Data source: Compiled according to the analysis contents

These theories suggest that in the strategic management area a major topic of research is to understand sources of competitive advantage and especially sustained competitive advantage for firms (Barney, 1991).

This research adopts two theories in primary level analysis: industrial organization theory, and purchasing policy. Industrial organization theory emphasizes the influence of industrial environment on enterprise performance. Purchasing policy theory explains the relationship between direct sellers and direct-selling firms. These theories provided basic knowledge for my analysis.

There are higher-level overarching theories that look at the whole picture, which include Resource-based View, Social Resource-based View, and Dynamic Capabilities. These theories provide direction for me to analyze how the direct-selling and traditional firms exploit their strengths and mitigate impact of their weaknesses for achieving competitive advantages and to analyze resources tied to direct-selling companies' overperformance compared to firms using traditional business models. Resourced-Based View and Social Resource-based View helped the paper in defining factors influencing performance of direct-selling companies and traditional companies and in explaining the root causes of those factors' impacts on performance.

Dynamic capabilities theory directed the research in searching for the ability of enterprises to update, integrate, and reconfigure resources in a dynamic environment to achieve and maintain competitive advantages.

Below the paper has introduced the theories reviewed for this research, and discussed their different aspects related to the research.

Industrial Organization Theory

Industrial organization (IO) theory emphasizes the influence of an industrial environment on enterprise performance. According to IO theory, a competitive strategy should connect enterprises with their industrial environments. In industrial organization, Bain (1959)⁴⁹ studied the effects of industrial concentration, product differentiation, and barriers to entry on corporate performance. On this basis, he proposed an IO framework structure behavior performance (SCP) model. Based on Bain's SCP model, Michael Porter further developed the IO method. In his book *Competition Strategy*, Porter (1980)⁵⁰ provided a five-force model, a framework to analyze the level of competition in the industry and evaluate its attractiveness. The five-force model includes three levels of power - the threat of new entrants, the competition between existing enterprises, and the threat of substitutes - and two vertical forces - the bargaining power of suppliers and customers. The model focuses on the external market environment to evaluate the attractiveness of an industry. The five-force model has been widely used in business to analyze the competition and attraction of an industry or a market segment. Under the influence of Porter's work, the concept of competitiveness has been strengthened (Bhawsar and Chattopadhyy, 2015).

⁴⁹ Bain. *Industrial organization* [M]. New York: John Wiley. 1959

⁵⁰ Porter, M. E. *Competitive strategy: techniques for analyzing industries and competitors* [J]. Harvard Business Publishing. 1980

In addition, Porter (1980) introduced three types of strategies that a company can adopt: cost leadership, differentiation, and niche players. He also believed that each company can only choose one of three strategies to gain a competitive advantage. Using two or more of the three strategies at the same time will inevitably lead to low operational efficiency because these strategies are mutually exclusive.

Michael Porter's competitiveness theory has been widely accepted in explaining the relationship between corporate performance and external factors (industrial environment). However, it does not provide insight into the relationship between a firm's performance and internal factors (such as firm resources) (Barney, 1991). It is difficult to explain the two basic problems in strategic management with Porter's Theory:

1. Why are the performance differences in the same industry so large?
2. Why can some companies beat their competitors and maintain their competitive advantages?

Research shows that the industrial environment is only a secondary determinant of corporate performance (less than 20%) (Rumelt, 1991; McGahan and Porter, 1997; Hawawini et al., 2003; Grant, 2016). In his study, Rumelt (1991)⁵¹ found that the variance of corporate earnings within an industry is far greater than that between different industries. He believed that the competitive advantage reflected by the extraordinary profit rate of an enterprise has little to do with the external market forces, but with the unique resource elements of the enterprise. With the rapid growth of technology development, the competitive environment is changing more and more rapidly and fiercely. Therefore, enterprises are more difficult than ever to analyze and understand the industrial environment. On the contrary, it is relatively easy for a company to control and develop internal resources and capabilities.

SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis has been applied to analyze opportunities and threats facing by organization. However, "only 8-15% of the variance in a firm's performance can be explained by industry structure, this is a serious deficiency" according to Black and Boal. Therefore, in this study, the author assumed that firms within China's healthcare industry are identical in terms of the external industrial environment.

Furthermore, in a world in which the external environment is changing continuously and increasingly rapidly, defining a firm's strategy on the basis of its resource-base is less risky than defining it on positional grounds (Wernerfelt 1984). In his pioneering paper "Resource-Based View of Enterprise",

⁵¹ RUMELT, R. P. How much does industry matter? [J]. Strategic Management Journal. 1991, 12, pp167–185

Wernerfelt (1984)⁵² suggested that the competitiveness of the enterprise should be understood from the perspective of the unique resources available to the enterprise. "He felt that too much management research focused on the external environment rather than the advantages of the enterprise". He believed that enterprises should make strategies according to their own advantages, and the future advantages will come from the existing advantages. Wernerfelt's view promotes the shift of strategic management research from industry focus to the company itself (Lockett et al. 2008). Then a resource-based view (RBV) appeared.

Resource-Based View (RBV)

The RBV focuses on how a firm may exploit its strengths and mitigate impact of its weaknesses for achieving competitive advantage (Barney, 1991). While searching factors influencing performance of direct-selling companies, the resource-based view of the firm (Barney, 2001) has been adopted to explain the impact of five different factors on organizational capabilities. This paper found extant direct-selling studies focusing on external institutional factors such as relationship culture (Luk, Fullgrabe & Li, 1999; Merrilees & Miller, 1999) and cause-related marketing (Larson et al., 2008), or single internal factors such as social media (Chang & Lee, 2015; Ferrell, 2012). Seldom do researchers analyze the success factors in an integrated framework. This study will adopt the resource-based view to analyze the integrated successful factors of the direct-selling companies in Chinese market.

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JAY BARNEY

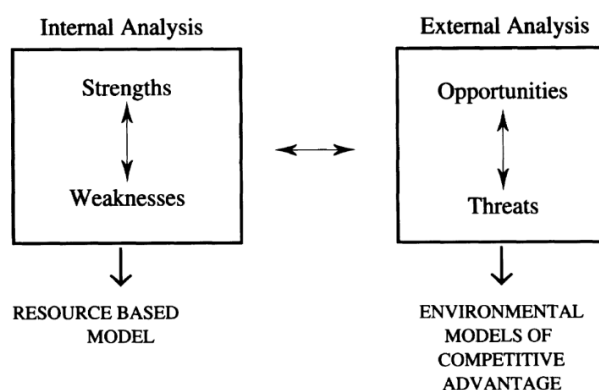


Figure One. The relationship between traditional "strengths-weaknesses-opportunities-threats" analysis, the resource based model, and models of industry attractiveness.

Figure 25: The relationship between traditional "strengths-weakness-opportunities-threats" analysis, the resource-based model, and models of industry attractiveness

Data source: Barney, J. Firm resources and sustained competitive advantage [J]. Journal of Management. 1991,

⁵² WERNERFELT, B. A resource - based view of the firm [J]. Strategic management journal. 1984, 5, 171-180

“The Resource-Based View (RBV) theory is a theory to evaluate the competitiveness. It emphasized that resources play a key role in helping companies to obtain a sustainable competitive advantage and to achieve performance goal” (Barney, 1991). In resource-based view theory, Barney (1991)⁵³ presented a framework with four factors: value, rareness, inimitability, and substitutability. Value refers to the level of competitive advantage of an enterprise, as well as the degree of advantage utilization of an enterprise in grasping external opportunities and minimizing external threats. Rareness refers to the degree to which it is difficult for a competitor to own the same resources that another organization actually obtains. Inimitability refers to the difficulty of one company to obtain the same resources as another company. This may be caused by information asymmetry or cost advantage created by one organization, which is not easy to be copied by another organization. The last requirement for enterprise resources to become the “source of sustainable competitive advantage is that there should be no resources with equal value that are not are or cannot be imitated”.

Resources refer to all assets, capabilities, organizational processes, enterprise attributes, information and knowledge controlled by the enterprise, enabling the enterprise to conceive and implement strategies that can improve its performance (Barney,1991). Hoskisson et al. (1999)⁵⁴ summarized the resources, differentiated capabilities, unique business experience, organizational culture, leadership, entrepreneurship, etc., investigated in the existing research. The development of RBV makes the strategic management field focus on the internal resources of enterprises again and regards the internal assets of enterprises as the source of advantages.

There are two major assumptions of RBV. First, the resources owned by firms are heterogeneous. Second, these differences on resources are stable over time. Therefore, owning valuable, rare, unique, inimitable resources will make differences among firms for a long time (Barney, 1991).

⁵³ Barney, J. Firm Resources and Sustained Competitive Advantage [J]. Journal of Management, 1991,17(1), 99-120

⁵⁴ HOSKISSON R E, EDEN L, LAU C M, et al. Strategy in emerging economies [J]. The Academy of Management Journal. 1999,43(3): 249-267

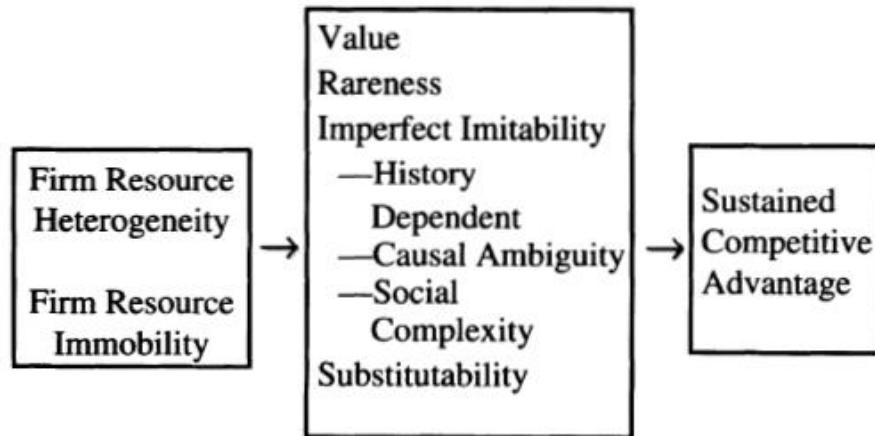


Figure 26: Resource-based view theory framework

Data source: MBA Think Tank Encyclopedia. Resource based Theory [J]. <https://wiki.mbalib.com>. March 6, 2017

RBV analyzes the root of competitive advantage from companies' internal resources perspective rather than from external perspective. All companies this research studied are operating under the same external conditions in China. Therefore, The paper prefers to focus my research on successful healthcare companies with big sales volumes.

Aaker (1989)⁵⁵ raised four practical questions to help enterprises focus their strategies on their resources and capabilities. First, what are the assets and capabilities critical to the industry? And when the company succeeds in competition, what will the resources the company gain or lose? Second, to maintain the competitive advantage, what kind of resources does the company need? And within the mix of resources, what are the best-fit resources the company should develop, enforce and maintain? Third, how to acquire or build these resources which will enhance the competitive advantage of the company? Forth, how to deal with competitors who own unique resources? When the company switch strategic focus to internal resources, how can the company deal with the change of external environment? (Aaker, 1989). These are the questions this paper is going to research.

Social Resource-Based View (SRBV)

As a development of RBV theory, Tate and Bals (2016)⁵⁶ added social resource into RBV and proposed a Social Resource-Based View (SRBV) to highlight the importance of social resources and

⁵⁵ DA Aaker, MB Equity, J Wiley. Bibliography on power system state estimation (1968-1989) [J]. IEEE Transactions on Power Systems. 1989,12, pp113

⁵⁶ TATE, W. L. & BALS, L. Achieving Shared Triple Bottom Line (TBL) Value Creation: Toward a Social Resource-Based View (SRBV) of the Firm [J]. Journal of Business Ethics, 2016, p1-24.

capabilities of a company on building up competitive advantages. A social capability is the capability to leverage internal and/or external stakeholder relationships with the goal of reciprocal exchange (Tate and Bals, 2016). Social capabilities include stakeholder management, compliance, corporate governance, commitment to society and employment, etc. It is about the access and fundraising for self-sustainability and the effective implementation of a particular social purpose and the extent of the social impact generated (West, Posner, 2013). The social purpose and its amplitude can be represented by the concept of social innovation proposed by Marée and Mertens (2012)⁵⁷ compared to the concept of social innovation and social value proposed by Jr. et al. (2008)⁵⁸. In particular, the latter recognizes the importance of management of resources and defines it as a resource orchestration, a combination of two perspectives identified in the literature on the use of resources, to obtain a competitive advantage: resource management proposed by Sirmon et al. (2007, 2011)⁵⁹ and the asset orchestration proposed by Helfat et al. (2007)⁶⁰. Social innovation deals with the generation and diffusion of ideas around a specific problem which involves various stakeholders and actors at different development stages of creating systemic change (Murray et al., 2010). In fact, participation is a characteristic of social innovations as it is understood that social needs are better perceived by those who are directly affected by the problems being addressed, and that to come out with effective results, by those who are involved in the design, implementation or adoption of innovations.

For the direct-selling industry in China, there are three key stakeholders and one of them is the government agency, MOFCOM, which has the power to decide whether a company can be granted a direct-selling license in China and can deploy a direct-selling business model legally. Another key government agency, the Public Security Bureau, has the authority to judge whether one direct-selling company's business operation is complying with law or not. It should be noted here that China's Direct-selling Law, which has always been the norm for direct-selling business, is still in the revision stage and may change after the government has a better understanding of the direct-selling industry. The third key stakeholder is customer/direct seller who work for direct-selling companies and also buy products from

⁵⁷ Michel Marée, Sybille Mertens. *The Limits of Economic Value in Measuring the Performance of Social Innovation* [J]. Palgrave Macmillan Books. 2012,34, pp23-35

⁵⁸ Jr. et al. The epistemic culture of the OECD and its agenda for higher education[J]. *Journal of Education Policy*. 2008,11

⁵⁹ Sirmon, D. G., Hitt, M. A., Ireland, R. D., & Gilbert, B. A. Resource orchestration to create competitive advantage: Breadth, depth, and life cycle effects [J]. *Journal of Management*. 2011, 37(5), 1390–1412

⁶⁰ HELFAT, C. E., FINKELSTEIN, S., MITCHELL, M. P., SINGH, H., TEECE, D. & WINTER, S. G. Dynamic capabilities: understanding strategic change in organizations [J]. *Academy of Management Review*. 2007, 30, 203-207.

direct-selling companies. Those people are not only customers, but also sellers for the products. They experience the change of their health caused by healthcare products, and then they become sellers to promote these products to their friends while receiving commission from direct-selling companies. The paper argues that all of these are social innovations. Companies recognize social needs and create new forms of relationships or cooperation that benefit society and enhance their ability to act. (Mulgan, 2012)

It is possible that social resource and capability may play a key role and be a critical capability for a company to win in the competition in China. Therefore, the author thinks it is worthwhile to add the social resource and capability perspective in my research because it will help us in understanding how the social dimension contribute to a direct-selling firm's strategic competitive advantage. In their work, Tate and Bals (2016)⁶¹ had identified some social capabilities such as mission-driven approach and stakeholder management.

Dynamic Capabilities Approach (DC)

Since the 1990s, with the rapid changes of industrial environment and technology, how to make enterprises adapt to the dynamic environment and maintain competitive advantage has become the focus of scholars and enterprise managers. In the field of strategic management, the traditional RBV is not enough to explain how enterprises can gain competitive advantages in the changing market environment (Teece and Pisano, 1994; Teece et al., 1997; Eisenhardt and Martin, 2000). DC originates from RBV, which refers to the ability of enterprises to update, integrate and reconfigure resources in a dynamic environment to achieve and maintain competitive advantage. DC is particularly helpful for innovative companies to enter new markets and develop new products, and for multinational companies to integrate and allocate resources to cope with opportunities and threats in a changing environment (Teece, 2007).

Generally speaking, there are two views on the definition of DC. The first is from the perspective of ability. Teece and Pisano (1994)⁶² first proposed the concept of dynamic capability, and defined DC as the capability of integrating and reallocating resources. Later, Teece et al. (1997)⁶³ defined DC in more detail as the ability of a company to integrate, build, and reconfigure its internal and external capabilities to cope with rapidly changing environment. The DC method is an extension of RBV (Teece

⁶¹ TATE, W. L. & BALS, L. Achieving Shared Triple Bottom Line (TBL) Value Creation: Toward a Social Resource-Based View (SRBV) of the Firm [J]. *Journal of Business Ethics*, 2016, p1-24.

⁶² TEECE, D. & PISANO, G. The dynamic capabilities of firms: an introduction [J]. *Industrial and corporate change*. 1994, 3, 537-556.

⁶³ TEECE, D. J., PISANO, G. & SHUEN, A. Dynamic capabilities and strategic management [J]. *Strategic management journal*, 1997, pp509-533.

et al., 1997). Winter (2003)⁶⁴ echoed Teece's definition and further defined DC as "advanced capability" rather than "ordinary (low-level) capability" owned by the company. Companies can use DC to extend, modify and generate normal capabilities. By using DC, enterprises can create, update and protect unique resources. DC determines the speed of normal capability change and helps normal capability evolve into DC. Other scholars defined DC as a method of purposefully changing normal resources under the leadership of enterprise managers (Zahra et al., 2006; Helfat et al., 2007). Teece (2007)⁶⁵ expanded the definition of DC, providing three dimensions of DC:

1. Perception and identification of opportunities and threats;
2. Seizing opportunities;
3. Maintaining competitive advantages by enhancing, integrating, protecting and redeploying tangible and intangible assets as necessary.

The paper holds that the three aspects of DC make this method more structured and a useful tool in business practice.

The second perspective of DC definition is based on the process perspective. Some scholars thought that DC is a routine, process and mode. For example, Eisenhardt and Martin (2000)⁶⁶ pointed out that defining DC as a capability makes it a little too abstract and repetitive. They defined DC as a specific and identifiable strategic or organizational process, such as product development, strategic alliance, strategic decision-making and M&A. Specifically, DC is the process that enterprises use their resources, especially the process of integration and reconstruction to acquire and release resources to adapt to or even create market changes. Similarly, Zollo and Winter (2002)⁶⁷ defined DC as a stable mode realized by learning, which can be used by organizations to systematically form or modify their operating procedures to achieve higher efficiency.

Although there are different views on the above definition of DC, and the debate continues to today, the paper thinks the two views, capability and process, are basically the same. DC itself is not a process or routine, but it is embedded in enterprise processes and routines. The main role of DC in enterprise

⁶⁴ WINTER, S. G. Understanding dynamic capabilities [J]. Strategic management journal. 2003, 24, 991-995.

⁶⁵ TEECE, D. J. Explicating dynamic capabilities: the nature and micro foundations of (sustainable) enterprise performance [J]. Strategic management journal. 2007, 28, 1319-1350.

⁶⁶ EISENHARDT, K. M. & MARTIN, J. A. Dynamic capabilities: what are they? [J]. Strategic management journal. 2000, 21, 1105-1121

⁶⁷ ZOLLO, M. & WINTER, S. G. Deliberate Learning and the Evolution of Dynamic Capabilities [J]. Organization Science, 2002, 13, 339-351

operation is to redeploy basic internal resources and allocate normal procedures. It is a high-level capability that can improve the low-level capability (Winter, 2003). This high level of capability will have an impact on the company's various business processes, such as M&A or restructuring. Through acquisitions, companies can reconfigure and reshape their basic resources and explore new opportunities (Karim and Mitchell, 2010). Similarly, through restructuring, companies will be able to redeploy “resources to adapt to the changes in the business environment”. Therefore, the two views are basically the same.

As for the dimension of DC, most scholars believed that DC should include the ability of integration and reconstruction (Teece et al, 1997; Eisenhardt & Martin, 2000; Lin & Wu, 2014). Teece et al. (1997)⁶⁸ put forward three dimensions of integration, construction and reconstruction. Eisenhart and Martin (2000)⁶⁹ also pointed out that even from the perspective of process, DC should include the capabilities of resource integration, resource allocation, resource acquisition and resource release. Wang and Ahmed (2007)⁷⁰ pointed out that DC should include three dimensions: absorption, adaptation, and creation. Absorption means the ability to accept external knowledge and integrate it with internal knowledge. Adaptation means that internal resources need to adapt to external environment, and creation means to gain competitive advantage through innovation. To integrate, reconfigure, update and recreate resources, these three capabilities need to be built. Based on the above, Wang et al. (2015)⁷¹ further classified DC as absorption and transformation capacity.

In short, the dimension, integration, and reconstruction abilities of DC have been recognized by most scholars in theory and practice. These two capabilities exist not only in the organization, but also in the specific process of new product development, strategic alliance and M&A. Resource reorganization and refactoring capabilities play an important role in various business processes (Wilson, 2012). The paper holds that DC construction should include resource integration and reconfiguration and it is the soul of the company. As for other possible structures, they may be controversial or specific. In general, these capabilities are essential for enterprises to identify, allocate and deploy strategic

⁶⁸ TEECE, D. J., PISANO, G. & SHUEN, A. Dynamic capabilities and strategic management [J]. Strategic management journal, 1997, pp509-533.

⁶⁹ EISENHARDT, K. M. & MARTIN, J. A. Dynamic capabilities: what are they? [J]. Strategic management journal. 2000,1105-1121

⁷⁰ WANG, C. L. & AHMED, P. K. Dynamic capabilities: A review and research agenda [J]. International Journal of Management Reviews. 2007,9, 31–51.

⁷¹ WANG, C. L., SENARATNE, C. & RAFIQ, M. Success traps, dynamic capabilities and firm performance [J]. British Journal of Management. 2015, 26, 26-44.

resources to gain competitive advantage, especially in the process of innovation. However, for the competitiveness of a company, these capabilities may not be the only factor we consider. Therefore, in this research, the paper intends to find out some other key capabilities, which are essential for enterprises to gain competitive advantages.

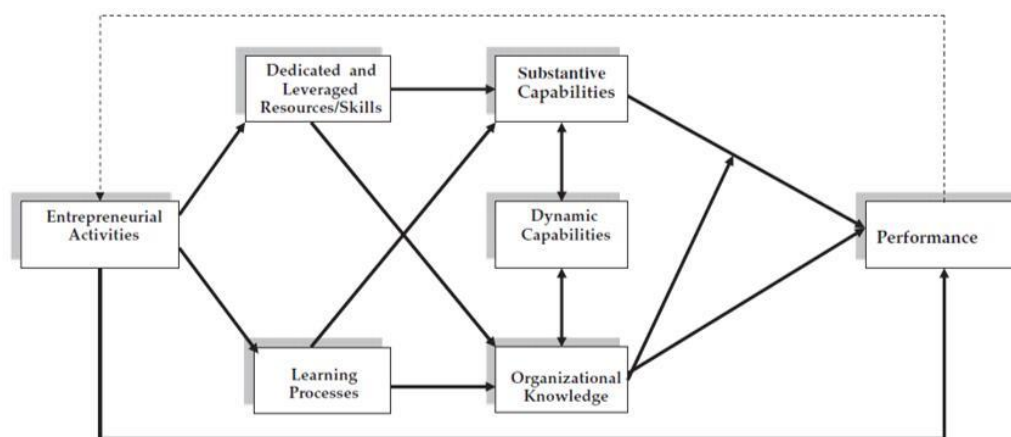


Figure 27: A stylized model of capability formation and performance

Data source: Compiled according to the analysis contents

“The Figure 27 implies that entrepreneurial processes shape the recombination of substantive capabilities, over time, increase its ‘strategic variety’”, which Miller (1993)⁷² viewed as the ability of the firm to conceive and implement varied, multiple and innovative strategic responses to the challenges it faces in its environment.

Purchasing management theory

This theory helps the paper to think and study from the perspective of customers. Traditional relationships are no longer sufficient. Closer and more collaborative approaches are needed. After reading purchasing management theory, the paper believes that the importance of the strategic relationship between buyers and sellers is a key factor causing direct-selling firm’s success in China’s healthcare industry. For a healthcare firm in China, its long-term planning (strategy) is a key factor to meet customers’ needs and realize its own financial outperformance, which always emphasize the relationship between buyer and seller. For direct-selling companies, buyer and seller refer to the direct-selling companies and their direct sellers (uplines).

There are three organization levels that are involved in the strategic management process for purchasing strategy: corporate, business unit, and functional department (Ellram et al., 1994). Carr et

⁷² Danny Miller. Product Market Competition and Debt Choice [J]. Journal of Corporate Finance, 2018(1): 204~224

al. (1997)⁷³ argued that purchasing strategy refers to the specific actions that the purchasing function may conduct to achieve its objectives. In the view of literature (Hesping & Schiele, 2015), the purchasing strategies are constructed as five levels with firm strategy, particular functional strategy, category strategies, tactical strategies and supplier strategy. “During the strategic supplier assessment process, the alternatives’ information and performances are usually incomplete and uncertain. Different decision makers may have different opinions because of their different expertise and background. Therefore, in the proposed supplier evaluation method, when modeling the supplier selection problem, it is assumed that the criteria in the proposed method are independent. However, in actual cases, various criteria are often hierarchically structured and may have interdependent relationships”. The buyer's strategy is usually to follow competitive market priorities such as innovation, flexibility, cost, security, or reliability. As result, the supplier selection pertain to these perspectives should be vary on firm and components specific consideration.

Purchasing strategy can be considered as consisting of many different dimensions, but the four most prominent dimensions in the literatures are supplier partnership-like relationship building, supporting marketing strategy, supporting on new product development and gain good quality product supply.

Partnerships between buyers and suppliers are important. Therefore, Kim et al. (2010)⁷⁴ considered the level of cooperation with the strategic supplier from buyer-company as the condition that drives the partnership supplier selection process. They argued that there are three kinds of cooperation dimensions: short-term, long-term, and permanent. Two things come into play: the process of supplier selection includes four steps based on different cooperation levels existing in the business practice, and it is impossible to work with all suppliers on the same relationship level with limited resource constrains. Thus, building partnership-like relationship with limited suppliers is one of the critical procurement strategies. Dyer et al. (1998)⁷⁵ argued the success of Japanese companies is usually derived from the close relationship between the buyer company and their suppliers, that is, the partnership model of supplier management. Various studies have shown that, compared with normal relationships,

⁷³ Carr, A. S., & Smeltzer, L. R. An empirically based operational definition of strategic purchasing [J]. *European Journal of Purchasing and Supply Management*. 1997, 3(4), 199-207

⁷⁴ Kim, W., et al. On social web sites [J]. *Information Systems*. 2010,35(2): 215-236

⁷⁵ Dyer, J. H., Cho, D. S., & Cgu, W. Strategic Supplier Segmentation: The Next “Best Practice” in Supply Chain Management [J]. *California Management Review*. 1998,40(2), 57-77

partnership-like cooperative relationships can bring higher performance, because cooperative companies exchange more information, coordinate on interdependent tasks, invest in dedicated or relationship-specified assets, reduce costs, improve quality, and accelerate product development, which are different from the arm's-length buyer-seller relationship. It is believed that partnerships are largely based on expectations of future growth and joint cooperation (Spekman, 1988). This is exactly the business model of direct-selling in China. The direct-selling mode requires that the direct seller is not only the employee but also the customer of the company. In terms of the dependence on suppliers, there are risks to the buyers. Therefore, buyers have to choose the dedicated type of strategic relationship (McCutcheon et al., 2000). Strategic suppliers' relationship is the fundamental base for direct sellers to establish the partnership with direct-selling companies.

Strategic supplier assessment and selection are guided by the buyers' competitive marketing conditions (Rink et al., 1980, 1999). In direct-selling companies, the company also has two roles: one is the employer, and the other is the supplier to direct sellers. In order to be effective, a buyer's purchasing strategy should have a definite direction which is related to long-term benefits and be consistent with both short-term and long-term objectives. This procurement strategy is different with traditional purchasing objectives which only consider short-term objectives. Compared with traditional procurement that focuses on minimizing purchase cost, strategic supplier selection should not only consider transaction cost minimization but also intangible factors such as quality, delivery, research and development, economic benefits (commission) cooperation from the perspective of long-term planning and benefits, so as to effectively strengthen the buyer's position in the market (Anderson et al., 1998; Carr et al., 1999). This is exactly what direct-selling does. How do direct-selling enterprises choose the optimal suppliers? Figure 28 shows the optimal choice from different perspectives.

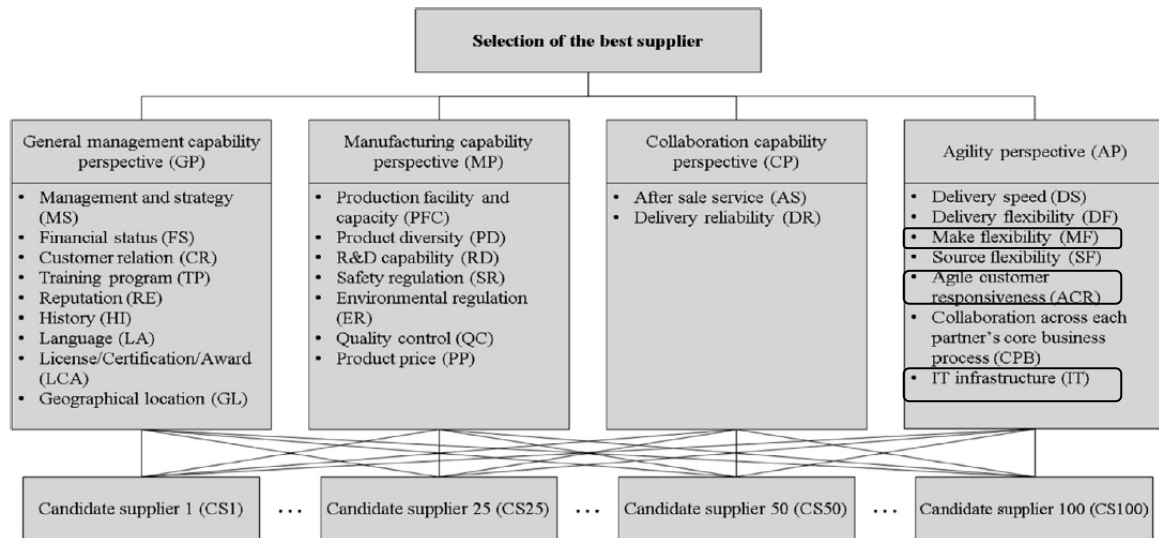


Fig. 1. Decision hierarchy of supplier selection.

Figure 28: Decision hierarchy of supplier selection

Data source: Liu Dongmei. Research on Supplier Selection in Strategic Procurement Mode Based on Supply Chain [J]. Journal of Xi 'an Aeronautical University. 2013(6), p35-40

Lee et al. (2015)⁷⁶ identified four criteria categorized supplier section based on his interview and literature review. They are “general management capability perspective (GP), manufacturing capability perspective (MP), collaboration capability perspective (CP), and agility perspective (AP)”, as shown in Figure 28. In his dissertation, the geometric average method was used to calculate the priority of the main indicators and the secondary indicators shown in the Table 13. Industry experts believed that the manufacturing capability perspective "MP (0.41) is the most important primary criterion for selecting the best supplier. It is also worth noting that they estimated that AP is 38% more important in the automotive industry. This is very important because the experts have not been informed or implied by any members of the research team, so they have not measured the new standards more”, but are only recommended to determine the priority weight of four standards in order to "select the best supplier" in their business fields. Table 13 described four criteria for selecting the best supplier.

⁷⁶ Lee et al. A comprehensive supplier classification model for SME outsourcing [J]. Procedia Manufacturing. 2015,38, pp146-172

Table 13: Descriptions of the criteria and sub-criteria

Main criteria	Sub-criteria	Description
GP	Management and strategy (MS)	The degree to which a supplier is in line with the firm's vision, strategy, and policy
	Financial status (FS)	The degree to which a supplier is financially stable
	Customer relations (CR)	The degree to which a supplier has strong customer relationships
	Training program (TP)	The degree to which a supplier has well-defined HR training programs
	Reputation (RE)	The degree to which a supplier has a good reputation
	History (HI)	The degree to which a supplier has a long history in the business
	Language (LA)	The degree to which a supplier has the ability to communicate in multiple languages
	License/Certification/Award (LCA)	The degree to which a supplier has certified qualifications
	Geographical location (GL)	The degree to which a supplier is located nearby
MP	Production facility/capacity (PFC)	The degree to which a supplier has considerable production capacity
	Product diversity (PD)	The degree to which a supplier offers diversified products
	R&D capability (RD)	The degree to which a supplier puts effort into R&D activities
	Safety regulations (SR)	The degree to which a supplier obeys safety regulations
	Environmental regulations (ER)	The degree to which a supplier is environmentally friendly
	Quality control (QC)	The degree to which a supplier conducts quality control actively
	Product price (PP)	The degree to which a supplier offers a cheaper price
CP	After-sales service (AS)	The degree to which a supplier provides good after-sales service
	Delivery reliability (DR)	The degree to which a supplier meets delivery requirements
AP	Delivery speed (DS)	The degree to which a supplier meets delivery speed requirements
	Delivery flexibility (DF)	The degree to which a supplier can respond to changes in delivery requirements
	Make flexibility (MF)	The degree to which a supplier can respond to changes in production requirements
	Source flexibility (SF)	The degree to which a supplier can respond to changes in source requirements
	Agile customer responsiveness (ACR)	The degree to which a supplier can respond to changes in customer requirements
	Collaboration with partners (CPB)	The degree to which a supplier can collaborate across each partner's core business
	IT infrastructure (IT)	The degree to which a supplier adopts a practical IT system

Data source: Lee et al. A comprehensive supplier classification model for SME outsourcing [J]. *Procedia Manufacturing*. 2015,38, pp146-172

It is known that basically no article made an in-depth comparison between traditional healthcare companies and direct-selling companies in China's healthcare industry by leveraging management theories or conducting qualitative analysis to clarify the resources and capabilities that made direct-selling companies have better performance than traditional ones. However, the paper filled in this gap and the theories helped in explaining the research answers and in making predictions.

Research design and methods

Because qualitative study is conducted in a natural environment, using field experience, open interview, participatory and non-participatory observation, literature analysis, case investigation and other methods to conduct in-depth and detailed and long-term research on social phenomena, it is simple and easy to do, and can be close to the research object. Therefore, the paper adopted a qualitative study to find out different success factors that affect healthcare corporate performance, and this paper assessed the relationship between these factors and direct-selling firms better performance than traditional firms.

The reason for choosing a qualitative approach is because the factors possibly affecting performance, social factors, organization behavior, marketing, strategy and information technology are intangible. It is appropriate to measure intangible resources in a qualitative way rather than use other research methods⁷⁷. The weakness is that it is difficult to have access to interviews of executives in this healthcare industry in China, especially for direct-selling companies. There are no public direct-selling

⁷⁷ Zhihu. The difference and relation between quantitative research and qualitative research [J]. <https://zhuanlan.zhihu.com/p/390609270>. July 28, 2021

companies in China, which make the research subject difficult to access.

“Enterprise resources are divided into three categories: physical capital resources (Williamson, 1975), human capital resources (Becker, 1964) and organizational capital resources” (Tomer, 1987). “Physical capital resources include the physical technology used by the company, the company's plant and equipment, geographical location and access to raw materials. Human capital resources include training, experience, judgment, intelligence, interpersonal relationship and the insight of individual managers and employees in the enterprise. Organizational capital resources include the company's formal reporting structure, formal and informal planning, control and coordination systems, and informal relationships”. The purpose of this dissertation is to elaborate the attributes of material capital, human capital, and organizational capital, which enable enterprises to conceive and implement strategies, in order to improve their efficiency and effectiveness (Wernerfelt, 1984).

Physical capital resources include physical technology, including factories, equipment, geographical location and the ability to acquire raw materials (Barney, 1991). In this study, facility capability includes soft technical capability and infrastructure hardware. Both direct-selling companies and conventional firms invest large amount of capital in the physical capital. Technological capability plays an important role to measure a firm's manufacturing performance in terms of technology, innovation and other activities (Adida et al., 2011; Chod et al., 2010; Goffin et al., 2006).



Figure 29: Factors influencing direct-selling better sales performance

Data source: China Investment Consulting industry research. Analysis on the Influence Factors of Direct-Selling Industry in China from 2019 to 2023 [J]; Eastmoney.com; March 20, 2019

The majority of the factors above are human capital resource, organization capital resource, and so on. These are all intangible and are more appropriate to be measured qualitatively. Another reason is the limited literature on the subject of direct-selling companies in China. Conducting qualitative interviews allowed the paper to explore much in-depth information to initiate the project and lay a foundation for answering these questions. The paper gathered first-hand opinions from senior executives working in the industry through one-on-one executive interviews. And then the paper categorizes the answers to each question and codes the interview information. During the interviews, the author encouraged interviewees to talk freely, and interpreted data objectively and concluded. Allow people to look at the writer's notes and confirmed that the writing reflected what they meant.

The paper uses first-hand and valuable samples and uses scientific methods to explain the opinions of others. The research conclusion has solid and practical implications for China's direct-selling companies and traditional companies. The survey results and valuable recommendations of the paper have a certain promotion value in the industry.

The following questions are raised for the research of the paper.

1/ Research Questions

To answer the question, What Determines the Success of Direct-selling Firms in China's Healthcare Industry, this research selected successful direct-selling companies and traditional companies with high-ranking sales performance in the healthcare industry to be the targets of study. Five dimensions are considered to be their success factors at the beginning, which are organization behaviors, marketing, strategy, information technology and social factor.

Sales revenue reflects whether a company possesses competitive capabilities and resources, and effectively applies those to their operation. This dissertation tries to verify: (a) The relationship between organizational behaviors, marketing, strategy, information and technology, social factors, and sales performance; (b) Whether direct-selling companies have done a better job in all these factors compared to traditional firms. Once these questions get investigated, the conclusion can be reached scientifically for the research question.

In "Managing assets and skills: the key to sustainable competitive advantage" (Aaker, 1989), David conducted a survey of 248 strategic business unit (SBU) managers in Northern California⁷⁸. They were

⁷⁸ Fred R. David. How Companies Define Their Mission [M]. Long Range Planning. 1989, 22, 1: 91.

asked about the strategic competitive advantages (SCA) of their businesses. One-hundred-thirteen (113) of these businesses were “consulting, financial services, real estate, airlines, hotels, law, insurance, retail, venture capital and restaurants. Another 68 were high-tech companies engaged in personal computers, software, information systems, lasers, medical instruments, CAD / CAM equipment and other products. The other 67 companies were engaged in manufacturing or raw material business, including clothing, pharmaceutical, air conditioning, chemicals, metal manufacturing, gardening supplies, oil and special forging. These responses were recorded and categorized by asset and skill”. Table 14 summarizes these results and provides some insights into the SCA structure.

Table 14: Sustainable competitive advantages of 248 businesses

	High-Tech	Service	Other	Total
1.Reputation for Quality	26	50	29	105
2.Customer Service/Product Support	23	40	15	78
3.Name Recognition/High Profile	8	42	21	71
4.Retain Good Management & Engineering Staff	17	43	5	65
5.Low-Cost Production	17	15	21	53
6.Financial Resources	11	26	14	51
7.Customer Orientation/Feedback/Market Research	13	26	9	48
8.Product Line Breadth	11	25	17	47
9.Technical Superiority	30	7	9	46
10.Installed Base of Satisfied Customers	19	22	4	45
11.Segmentation/Focus	7	22	16	45
12.Product Characteristics/Differentiation	12	15	10	37
13.Continuing Production Innovation	15	20	10	35
14.Market Share	12	14	9	35
15.Size/Location of Distribution	10	12	13	34
16.Low-Price/High-Value Offering	6	20	6	32
17.Knowledge of Business	2	25	4	31
18.Pioneer/Early Entrant in Industry	11	11	6	28
19.Efficient, Flexible Production/Operations Adaptable to Customers	4	17	4	26
20.Effective Sales Force	10	9	4	23
21.Overall Marketing Skills	7	9	7	23
22.Shared Vision/Culture	5	13	4	22
23.Strategic Goals	6	7	9	22
24.Powerful Well-Known Parent	7	7	6	20
25.Location	0	10	10	20
26.Effective Advertising/Image	5	6	6	17
27.Enterprising/Entrepreneurial	4	3	6	11
28.Good Coordination	3	2	5	10
29.Engineering Research Development	8	2	0	10
30.Short-Term Planning	2	1	5	8
31.Good Distributor Relations	2	4	1	7
32.Other	6	20	5	31
Total	322	552	283	1157
Number of Businesses	68	113	67	248
Average Number of SCAs	4.73	4.88	4.22	4.65

Data source: Fred R. David. How Companies Define Their Mission [M]. Long Range Planning. 1989, 22, 1: 91.

After reviewing the above literatures, when the paper analyzed the competitiveness of healthcare companies, found several potential factors that might need to be considered. These factors were No.1 to No.4 in the above list. They are reputation for quality, customer service/product, name recognition/high profile, and retain good management & engineering staff. All of these have been included in the independent variables below.

Based on interview information and data, this research expected to collect and analyze answers to the questions below.

Q1: Whether the strategy would influence the sales performance? Have direct-selling companies done better in the area than traditional ones?

Q2: Whether organization behavior would have a positive influence on sellers' performance? Have direct-selling companies done better in the area than traditional ones?

Q3: Whether marketing has a positive influence on sellers' performance? Have direct-selling companies done better in the area than traditional ones?

Q4: Whether technology has a positive influence on sellers' performance? Have direct-selling companies done better in the area than traditional ones?

Q5: Whether social factor has a positive influence on sellers' performance? Have direct-selling companies done better in the area than traditional ones?

Q6: Whether corporate culture has a positive influence on sellers' performance? Have direct-selling companies done better in the area than traditional ones?

Accordingly, the paper formulated the theoretical framework and put forward the following five questions to see if direct-selling companies are doing a better job in all the factors over traditional companies:

Q1: Whether the strategy would influence the sales performance? Have direct-selling companies done better in the area than traditional ones?

Q1a: Innovation capability would directly influence sales performance.

Q1b: Long-term planning would directly influence the sales performance.

Q2: Whether organization behavior would have a positive influence on sellers' performance?

Have direct-selling companies done better in the area than traditional ones?

Q2a: Upline training/role would directly influence the sales performance.

Q2b: Individual development plan would directly influence sales performance.

Q2c: Retaining good management and engineering staff would directly influence the sales performance.

Q2d: Employee performance would directly influence sales performance.

Q3: Whether the marketing has a positive influence on sellers' performance? Have direct-selling companies done better in the area than traditional ones?

Q3a: Branding value has a positive influence on sellers' performance.

Q3b: Market orientation has a positive influence on sellers' performance.

Q3c: Customer service and product support has a positive influence on sellers' performance.

Q4: Whether technology has a positive influence on sellers' performance? Have direct-selling companies done better in the area than traditional ones?

Q4a: IT infrastructure and applications have a positive influence on customer service/product support, and these have positive impact on sellers' performance.

Q5: Whether social factor has a positive influence on sellers' performance? Have direct-selling companies done better in the area than traditional ones?

Q5a: Public relationships directly influence customer service/product support and customer service/product support has positive impact on sellers' performance.

Q5b: Corporate social responsibility directly influences sellers' performance.

Q6: Whether corporate culture has a positive influence on sellers' performance? Have direct-selling companies done better in the area than traditional ones?

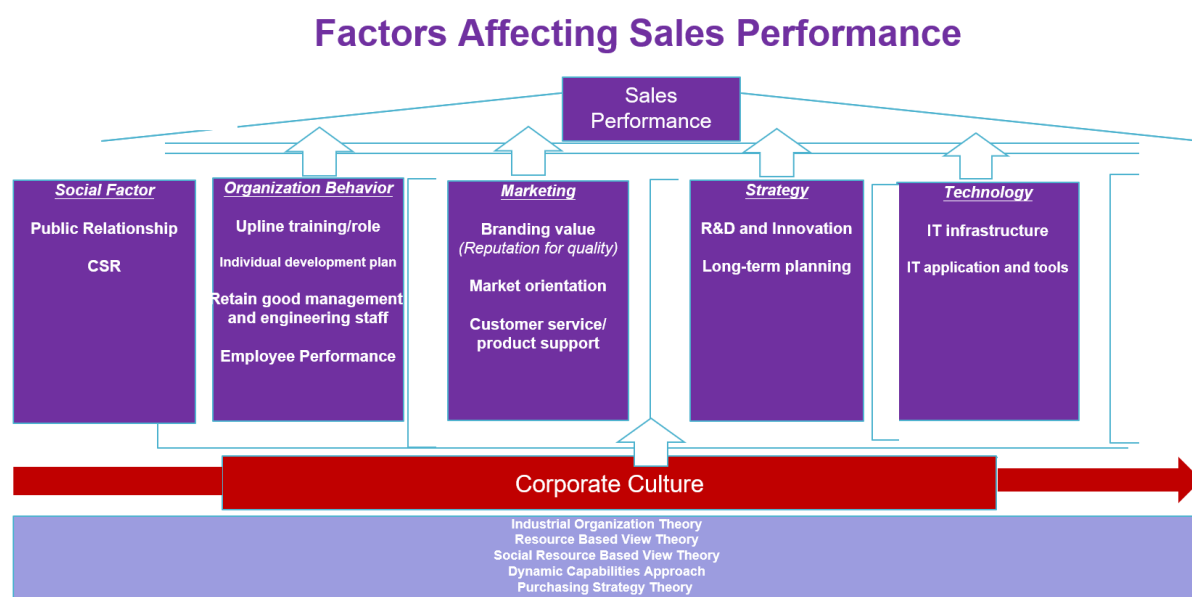


Figure 30: Factors affecting sales performance

Data source: Compiled according to the analysis contents

2/ Research Method

This research adopted the elite interview method to collect the data and analyzed the interviews based on first-hand information we collected. After comparing the merits and shortcomings of various methods, and considering the availability of the data, the author finally chose the objective sales volume as the performance measurement standard. The table in appendix is one of the objective performance rankings of Chinese direct-selling companies in 2017.

This research picked 20 interviewees. They all worked in the healthcare industry. Ten of them were executives of direct-selling companies, ten of them were executives of traditional Chinese healthcare companies. Purposeful sampling strategy was used in this research to select participants from direct-selling companies who had business in China.

Here are the considerations of the sample selection.

(1) The sample size of this study is relatively small because only 26 of 91 direct-selling companies had sales amount over 150 million USD in the Chinese market, which is considered more successful than traditional sales companies. The interviews with executives offer companies' success insights from five dimensions.

(2) One of the most important purposes of this research is to verify that the key resources and capabilities of direct marketing are better than those of traditional marketing, something experienced executives understand better than anyone.

(3) There are only 91 direct-selling companies certified by MOFCOM and only a very limited number of healthcare companies with sales of more than 150 million USD in traditional sales channels, which limits the number of traditional company samples. However, it does make this paper more valuable, because there are a lot of companies that can guide their development if the research questions can be answered.

A total of 20 executives attended the interviews. Their positions were CFO, executive director, general manager, product development director, sales manager, compliance manager and national sales director. Among the executives, their experience in China all came from successful direct-selling companies with sales performance ranked in the Top 30 of 91. The author believe their opinions cover critical aspects of business development and insights since in their positions they made decisions about a lot of strategic plans and business plans on a daily basis. They had rich experiences and the full sets of information on hand.

The paper had accumulated and conducted 20 in-depth interviews, ranging from as short as 45 minutes to as long as two hours. The author prepared a questionnaire, and the interviewees agreed to be interviewed on the phone or in person. The author began the interview by introducing a basic question: “Direct-selling companies achieved better sales performance than companies using traditional sales channels. Please let me know what you think are the important factors caused this result. Do you think direct-selling company is more market oriented than traditional firms?”

This kind of basic question provided background for this research and specific information about the research question. The paper could compare the responses of people who work in direct-selling companies with those who work in traditional companies.

To ensure the accuracy of the data from interviews, respondents were asked to review the author's audio recordings or interview notes.

After interviews, the paper gathered data, primarily from in-depth interviews, observations, and conversations with key interviewees, but also from company memos, flyers, newsletters, and public information. Then the author analyzed the data to wrote and developed research questions, and also

collected data through the interviews and archival data from industry annual reports to answer these questions.

The specific topics and analysis the paper presents here are derived from the application of interview information, as well as theories from industrial organization theory, resource-based view theory, social resource-based view theory, dynamic capability approach, and procurement strategy theory.

At the end, the author reviewed the analysis, claims, and conceptualizations with interviewees. The result of analysis is a narrative about the answers to the research questions.

The interviewed tried to keep questions open. In addition to asking the above six key questions directly, the interview questions also included the questions below to understand interviewees and their companies' background.

1/ Please give a brief introduction of your company, your working experience and your role in your organization.

2/ How many years (approximately) you have been working for this industry and how many years in direct-selling companies and in traditional companies respectively?

3/ Direct-selling companies achieved better sales performance than companies using traditional sales channels. Please let me know what you think are the important factors caused this result. Do you think direct-selling companies are more market-oriented than regular companies?

4/ Do you think there are other important factors contributing to your company's success that aren't mentioned here?

This dissertation adopted literature and theory review, executive interview, qualitative analysis, which make the research context more clear, more compact structured and more targeted.

Findings and conclusions from research

This research used a qualitative research method which enabled the collection of facts and gained insights. During interviews, the author had opportunity to understanding interviewees' attitudes, behaviors, experiences, opinions, processes, or predictions in a direct way and be able to interactive with the interviewees to find out clear and in-dept information.

Through executive interviews with chairman of the board, general managers, sales directors, finance directors and other senior executives working in ten successful direct-selling companies and in

ten large scale healthcare companies in traditional sales channels, The author kept optimizing the questions since there are more and more root causes and in-depth thoughts inducted from discussion with interviewees. The key questions for interviews were generated after literature review and theories reviews.

In the research, there are two business models. One is the direct-selling model, the other is the traditional model without direct-selling. The direct-selling model provides individuals with entrepreneurial opportunities and “all in” spirit. There is no limitation for work space, environment, and number of employees in direct-selling business model. Pyramid structure provides both people on the top and at the bottom with motivation in success stories of the topline.

Interviewees said when customers select nutrition products, their key questions are: What products shall I purchase? Whom shall I purchase from? Why should I purchase from this company not that one? These needs reflect the strong demand for direct-selling models instead of traditional ones. Customers prefer to listen to answers to these questions from people they trust. The traditional distributor can only display the products in a retailer’s shelf or drugstore. No one really wants to listen to customers’ needs and their questions.

At the beginning the author just threw out all my questions at one time. However, after conducted around five interviews, the author found actually that healthcare companies require different resources and capabilities at different stages of their life cycle.. The five resources and capabilities have different degree of importance in affecting corporate performance at different stages of development. The author optimized the questions to ask whether different factors have different level of impact to company performance at different growth stages, which provided richer information for this research.

Since the companies in the interview list are all successful and developed companies in terms of their sales volume, they all experienced their growth periods from small to big. The interviewees recalled their companies’ growth history and described their strategy, marketing, technology, organizational behavior, and social relationships at their different stages of development. They agreed that the five important factors the author asked represent the majority of the reasons that determine direct-selling companies being more successful in the healthcare industry than traditional ones. These factors all have a causal relationship with sales performance, the level of significance varies one by one at different growth stages.

There are three different stages of growth and development for healthcare companies mentioned

by the interviewees. This research splits the findings into three categories: early-stage, development stage, and mature stage. Table 31 are three diagrams presenting the different impact of different factors on different categories.

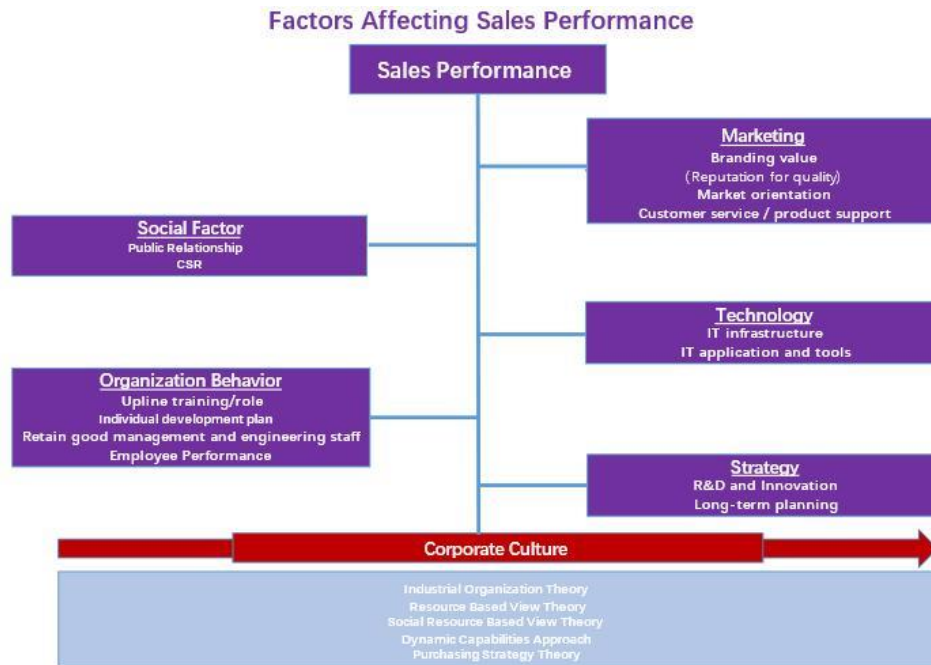


Figure 31: Early-stage category

Data source: Compiled according to the analysis contents

During the interviews, the author heard from interviewees that culture is the foundation of all other factors. The paper make conclusion to separate culture questions and concluded that culture is a foundational factor affecting all other factors in my research.

The interviewees told me when companies are at the early stage of their business, the most important factor deciding their performance is marketing. Following are social factors, technology, organizational behavior, and strategy. Direct-selling companies have stronger marketing power compared to traditional companies, and their performance is better than traditional ones because of this reason. This is found from the interviews. All the top 10 performing companies in the Chinese healthcare industry are all brand companies. Especially for direct-selling companies, they highlight their brands in all communications with direct sellers and customers. The interviewees said the DS model establishes DS relationship through building strategic entrepreneurship opportunities for direct sellers. The strategic entrepreneurship construction involves the behavior of seeking opportunities and advantages, which helps us understanding how firms create wealth.

Firms that identify potentially valuable opportunities but are unable to exploit them to develop a competitive advantage will not create value for their customers or wealth for their owners. Firms that build competitive advantages but lose their ability to identify valuable entrepreneurial opportunities are unlikely to sustain those advantages for long. As a result, direct-selling companies which have valuable entrepreneurial opportunities have stronger resources and capabilities in marketing than traditional ones.

The sequence of importance changed when companies entered into the developing stages. Interviewees said when a company passed its early starting stage, it usually accumulated customers and capital, which enabled it to acquire more resources and develop more competitive capabilities. For example, if a company wants to sell healthcare food in China, the law requires the company to apply for and obtain a health food license from the FDA. People call this license, “Blue Hat.” However, before a company can receive this “Blue Hat,” it usually needs to invest three to five years in R&D. These three to five years are usually the early stage of development for a healthcare company. After this period, companies have certain amounts of “Blue Hats” for different products they have; After retaining a certain number of customers, then started to become a company in developing stage.

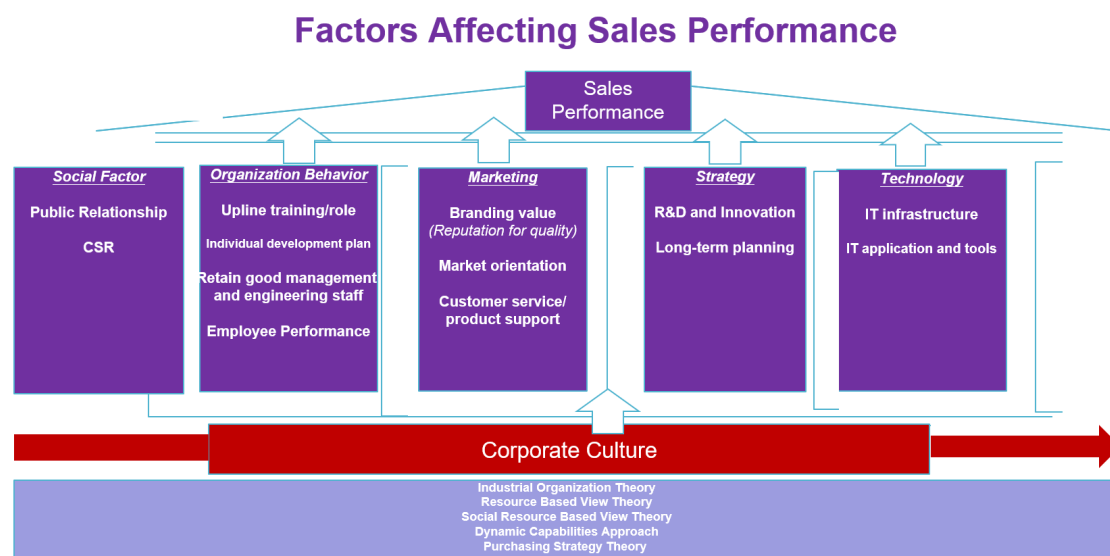


Figure 32: Developing stage category

Data source: Compiled according to the analysis contents

According to interviewees, the early phase requires creativity and informality. The development phase requires emphasis on operational planning, staging, training, optimism, problem solving, and stamina. The mature phase requires emphasis on efficiency, administration, judgment, and conservatism.” “During the growth period, sales management is likely to be plagued with temporary shortages, shipping

delays, and similar problems. (Rink&Dodge, 1980). However, this disadvantages usually can be explained by direct sellers because their customers have strong relationships with them. It is a special relationship marketing channel.

Interviewees told me nowadays there are some new innovative healthcare companies which purchase “Blue Hats” from existing companies and skip the early stage of development in their growth. This requires large amount of capital investment. Typically, it will take around 100,000 Pounds for one license for one healthcare food product. This is easier for direct-selling companies because they have larger gross margins compared to traditional ones, which gives them more working capital for investment.

Interviewees discussed when companies successfully passed the development stages and became successful companies with sustainable growth and strong competition barriers; their sales performance relied more on their strategies. Technology, marketing, social factors, and organization behavior are less important but still influenced the sales results.

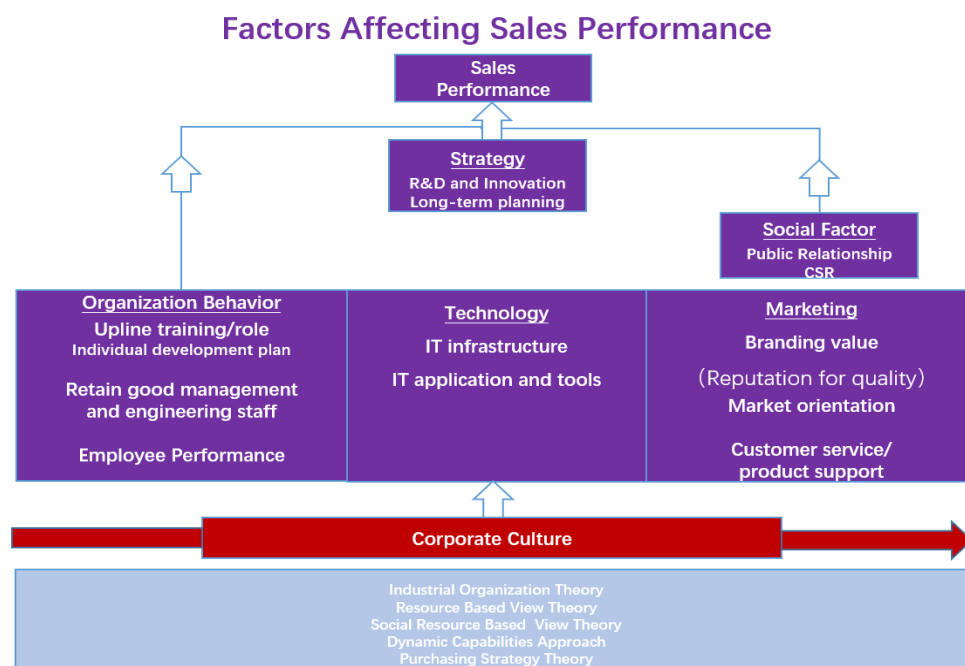


Figure 33: Mature stage category

Data source: Compiled according to the analysis contents

One conclusion that needs to be emphasized is that strategy plays a key role in affecting corporate performance. There is a unified answer from all executive interviewees about the importance of corporate culture. 90% of the interviewees agreed that corporate culture is the most important factor for

a company's performance. It is a foundation for all corporate functions and activities including financing, operational, investment and other activities. It affects the people a company is going to hire, retain, and develop in the organization. It also attracts customers with similar beliefs, values and vision. Therefore, a company with a truly positive culture will end up providing customers with valuable products or services in return for positive results in terms of business growth, profit generation, and value addition. "Personnel sales skills, qualities and motivation are optimum for the various phases of company life cycles".

Direct-selling model strategies comply with China country development strategies of promoting common wealth, because one feature of the direct-selling model is relationship marketing. Their entrepreneurship connects individual direct sellers' prosperity both in material and cultural terms with company's performance. Companies divide their profit among business shareholders and their direct sellers. This creates an opportunity to reallocate wealth among people. This is now highly encouraged by Chinese government. On August 17, 2021, Chinese President Xi Jinping stressed the need to promote common prosperity through high-quality development and guard against major financial risks in a coordinated manner.

From the perspective of China government's development strategy, common prosperity is an essential requirement of socialism and a key feature of Chinese-style modernization. The 10th Government Work Conference of the Financial and Economic Commission of the CPC Central Committee, held on August 17, stressed the need to strike a balance between efficiency and equity, make basic institutional arrangements for income distribution, expand the size of the middle-income group, increase the income of low-income groups, regulate excessive income and prohibit illicit income to promote social fairness and justice.

Another clear finding from the interviews is that if a company wants to achieve a good sales performance, it must meet the customer's needs and provide a better customer experience than other companies. With respect to customers' experiences, successful direct-selling companies provide a larger range of products, higher levels of quality, quicker and more efficient responses to all customers' requests than traditional ones.

It is worth mentioning that direct-selling companies have more imported products in their product portfolio than companies with traditional sales channels. This is an important success factor for them because majority of the Chinese customers prefer imported brands and products than the domestic ones.

In particular, direct-selling company executives believed that when foreign-invested enterprises enter the Chinese market, they have established a mature overseas direct-selling business model and compensation plans due to their three years of overseas experience before entering the Chinese market (refer to Chinese direct-selling business registration laws and regulations). Therefore, their rich overseas business experience can be applied to their Chinese market development and tend to be more successful. They believed that the business model is the most important factor for the success of a direct-selling company, because sales people are profit driven, and relationship marketing activates the passion and motivation of individual sales people. Foreign-invested companies have mature business model/ commission rule before they enter into Chinese market. One good example is that of a famous US direct-selling company (which is currently in the process of registering in the Chinese market). This company provides monthly training and kick off meetings for salespeople to give them growth direction and point out their development plans, like a trainer in a gym. They think the key for sales is to recommend new customers, meet them, and promote them. Invite and meet new customers continuously, let sales people make a reasonable plan, and share action plans and actual progress with the company. This is the key to their performance. A company is a community that helps people to communicate and connect with people of the same style and type. A commission program for direct sellers is the most important factor for DS companies' success. Chinese direct-selling companies try to pay higher commission to salespeople. Companies think that paying high commissions to sales people can hire more people all over the world. In addition, many direct-selling companies conduct charity activities, and this is like a non-monetary incentive for the people in the organization, because people usually feel pride when their company can support the community and people in the society.

Traditional companies also agreed that the direct-selling commission model is important for their successful sales performance. With the changes of lifestyle in China in recent years, Chinese people have developed a preference for sports, hardworking and a focus on beauty. Sales models need to be more appealing to young people, taking into account a wider range of consumption locations and being closer to people's everyday environments.

Interviewees all agreed that the most important factor affecting the company sales performance is their corporate culture and long-term corporate planning. Unlike traditional Chinese enterprises, which focus on increasing sales, direct-selling enterprises' mission is to provide customers with high-quality products and job opportunities for direct-selling personnel. And as their pledge, they always realize their

promise by providing business platform and working capital (pay sales commission) timely to their direct sellers. Innovation in business styles and models is very important now.

Below are granularity answers to each of the research question.

1. Corporate culture

Eighteen interviewees mentioned that corporate culture is important for corporate performance. Especially in the long run, interviewees thought that corporate culture is the root of everything in a company. Direct-selling companies have clearer and friendly corporate cultures than traditional ones.

Unfortunately for traditional companies, most of them cannot explain their culture as clearly as direct-selling companies. Some of them are with strong family DNA instead of a well-accepted company culture.

According to the interviewees, successful companies have corporate cultures matching the industry's environment. The relationship between government and enterprises, the recruitment of talent and the retention of talent all have a relationship with corporate culture. How to deal with the relationship between government and enterprise and how to recruit and retain talent, are highly dependent on the corporate culture. These were very representative answers among all the interviews. Interviewees thought that culture is important because it ensures companies can deliver safety and functional products to customers. From the perspective of human resources, a good corporate culture will provide high-level empowerment to senior executives. Interviewees said corporate culture or direct marketing corporate culture is an important part of the enterprise because it is important for enterprises to achieve a better market share by retaining key technical and management talents through corporate culture. Effective retention of technology and management is the key to the long-term effectiveness of an organization (R&D, NPD and etc.), and finally leads to the success of an enterprises' performance.

The first interviewee, from a direct-selling company listed in Northern Europe, claimed there is no bureaucracy between senior executives and uplines or employees in his company. The second interviewee was from a top direct-selling company; he talked about how their company emphasizes "improving the lives of the people we touch by helping people to achieve their goals. The culture of their company is just about making money. Their uplines who enrolled more customers were the ones who received trust from more customers and rewards from the company. Because the commission mechanism is designed to encourage uplines to attract more customers to accept their culture and products and to keep buying from their company every month, uplines can also earn continuous income

by recommending to new customers. An interesting example is the third interviewee from another direct-selling company where most employees are female and their slogan is, “Belief is first, family is second, work is third. They believed that culture is the key to recruit and retain quality talent for long-term sustainable growth. The fifth interviewee is from a direct-selling company, he thought that, while Chinese companies seldom talk about culture, foreign companies discuss culture with their sales force and direct their members to focus on their goals. The fifth interviewee is Mormon, and he values family and marital relationships very much. Other interviewees told me their companies provide quality products to serve customer’s health and wellness because their culture guides the employees to do so. Harmonious employee relationships also help to promote the company commission programs. Family culture helps retaining good management and technical staff in direct-selling companies. A negative culture may lead to the failure of a company.

Traditional companies think the personality of the owner of the company has influences on the corporate culture, which is also probably a very unique characteristic of the Chinese people. To succeed in China, a company must play all the trump cards: time, place, and relationships.

A Chinese traditional mindset is that foreign products and people are superior to Chinese ones. With the expansion of the healthcare products market, the Chinese market is developing its own style and characters, which is distinct overseas market. While China is promoting the Belt and Road project, its business thinking and methodology may be followed by the country's participation in the program.

Corporate social responsibility is another aspect of corporate culture. Social responsibility has a subtle impact on the development of enterprises. It has an important influence on the performance of direct-selling enterprises. It enables corporate culture to be better matched with the valuable customers’ culture. It has a positive effect on the value of a company. For example, it helps in promoting the company and the brand by providing better service. The service and products are usually provided by their employees. Interviewees stated that a successful healthcare product company needs to understand its social responsibility.

Social responsibility is one important section of corporate culture. One owner of a big sales channel store told me that his observation is direct-selling companies have a well-designed and managed plan for customer service relations while traditional companies only do this randomly.

One successful company sees charity as a good thing to do, but ESG should not be an obligation for enterprises.

2. Company long-term planning / Strategy Goal

More than ninety percent of the interviewees agreed that a company strategy and long-term plans are important to sales development. Only one interviewee said there is not much difference between DS firms and traditional firms.

All direct-selling companies interviewed have a clearer strategic plan than companies with traditional sales models. Foreign-invested direct-selling companies think China's market growth is their first priority market. Most successful direct-selling companies have a precise China strategy and stick to it. They think the strategy and enterprise planning should be long-term and rational with research and spiritual goals. Some companies review the strategy once a year and modify it. This strategy provides a clear sales target and expected number of members for successful direct-selling companies. Together with their strategies, direct-selling companies also have a clearer long-term plan of R&D, product development, and marketing development plan than traditional firms. Most traditional firms want short-term growth and quick return on assets.

Interviewees from direct-selling company thought there are three factors which are all important for their success. One is direct sellers' compensation plan, one is KPI for sales team, and the other is strategy or long-term organizational plan and objectives. Organizational objective gives direction for future growth. KPI will decide how a company measures its performance and how it is going to allocate dividends or benefit. An interviewee from one direct-selling company with a very small number of SKUs but overall successful business said strategy is important because it illustrates future growth goals and the roads which lead in the direction of success. For example, a company can adopt a cost effective method, product innovation, or business model innovation to achieve strategic goals; a clear strategy sets a firm direction for the company to achieve its business goal.

Executives at traditional companies said that successful companies have a clearer strategy than underperforming ones. Strategy is very important, but tactics are also very important; if a company wants to have high-quality performance in business, then adopting tactics suitable for the needs of the Chinese market is crucial. To survive in the Chinese market, companies must not only perform well in brand development, product innovation, and commercialization, but also cultivate a strong team for the implementation of strategic plans. The expansion of market share is the most important measure and the foundation of healthy growth.

Some executives in traditional sales channels thought the strategic direction or long-term planning

of the enterprise has an important impact on the enterprise, and enterprises should focus on target groups of people, select a large enough market segment, and build differentiation capabilities to meet their customers' needs. Clear enterprise strategy is the key factor for a successful enterprise to find the right direction and position in the market competition. In traditional companies, the leadership style of the chairman and CEO has a strong relationship with the corporate strategy.

Another interesting finding is there is a 20-year-old traditional company without direct selling that has been growing robustly in its sales because of continuous M&A in developed countries. Through acquisitions, it constantly reconfigures and reshapes its basic resources and explores new international opportunities. The restructuring allows the company to redeploy "resources to adapt to changes in the business environment". In the paper research, this 20-year-old successful company is facing the challenge of rebuilding its corporate values and strategic goals to support its business development in China.

Figure 34 is a description of bottlenecks in its current business development. The number in the schedule represents the level of challenges need to be addressed by the management team. The number is also based on a survey of 25 senior executive management members in China.

Key bottlenecks in business development in China[↵]

Secret ballot: What is the biggest challenge to maximizing the value and potential of the company's talent? [↵]

1=no challenge,5=maximum challenge[↵]

	1 [↵]	2 [↵]	3 [↵]	4 [↵]	5 [↵]
Corporate values [↵]	3 [↵]	6 [↵]	6 [↵]	3 [↵]	9 [↵]
Strategic goals [↵]	4 [↵]	4 [↵]	6 [↵]	6 [↵]	7 [↵]
Ability to execute [↵]	0 [↵]	5 [↵]	6 [↵]	8 [↵]	7 [↵]
Cultivation of talents [↵]	1 [↵]	2 [↵]	7 [↵]	9 [↵]	6 [↵]
Cooperation together [↵]	0 [↵]	3 [↵]	12 [↵]	6 [↵]	5 [↵]
Customer insight [↵]	0 [↵]	6 [↵]	10 [↵]	5 [↵]	5 [↵]
Information transparency [↵]	1 [↵]	8 [↵]	12 [↵]	2 [↵]	3 [↵]

Figure 34: Description of bottlenecks in in business development in China

Data source: Compiled based on the survey

It is a traditional company with major business in traditional sales channels and markets. The development strategy of traditional marketing channels is a push model, which pushes products to customers in traditional shopping places such as pharmacies and supermarkets. However, direct-selling

channels rely on more a pull pattern. They consider the natural attributes of products and try to match consumers' shopping needs and habits. We should learn from the development experience of direct-selling mode of Amway and Avon to rebuild channels, make brand positioning match with channel terminals, and carry out channel management and control.

One point that should be emphasized here demonstrated by this case is globalization is one of the drivers for fast growth in the healthcare industry. This is also has been verified by the successful direct-selling companies with foreign investment.

3. R&D and new product development

More than ninety percent of the interviewees believed R&D and new product development are the most important factors for their companies' fast growth and better performance. Only one interviewee who worked in the sales department of a direct-selling company rated the product as not very important and neither did R&D.

Before continuing with the results, there are some findings from the interview that need to be mentioned. Healthcare products are not like other consumer products, people are concerned about their quality, functionality, and side effects. In other words, the price is not the first consideration for purchasing, but quality and safety are. This point has also been made by the China Consumers Association.

Chinese direct-selling companies pay more attention to their product quality control because of potential harsh punishment by the China direct selling law. Direct-selling executives said R&D and new product development are the most important factors for business success. Their companies have a complete product line of healthcare products with functionality and safety. Some direct-selling companies have R&D centers overseas, such as Germany and Sweden. These overseas R&D centers guarantee the launch of new products every year and the application of new technologies in R&D and new products. Direct-selling executives also think thought that quality product with scientific research endorsement is important resource for promoting products and sales. Foreign-invested direct-selling companies usually have more than three years of overseas direct-selling experience when setting up operations in China. So, in the early days of their entry into China, about 70-80% of their products were imported from the US and had a unique company formula. Their eco-friendly eco-products were all produced by manufacturing facilities in the US. After entering the Chinese market, their job is to promote their products, let customers experience them, and show the functions of the products to their

friends, relatives, and other close people using their own experience. Direct-selling executives believed that R&D and new product development are the most important factors for business success because their companies have high-quality products and R&D centers in developed countries, and their culture encouraged innovation spirit. They thought that popular products lead to bigger market share. From their observation, there are Chinese companies (Zhongmai, Quanjian) that cannot grow fast because their products are not advanced and not cost efficient. Government implements stricter control over direct-selling companies than traditional sales companies, which really hurts them when they have serious cases like Quanjian in 2018. Quanjian exaggerated the functionality of their products and was punished, and its business was practically shut down in China by government agencies.

In the Internet era, products are the root of healthcare enterprises' growth. Only by choosing appropriate marketing methods, suitable to the trend of the market, and injecting cutting-edge technical vitality into products can enterprises succeed. Innovation is an important point for small and medium-sized enterprises to develop marketing of nutrition and health products under the industry background of "Internet +". By taking advantage of global information technology and development in the healthcare products industry, the new product efficacy, population adaptation, pricing standards, etc., can contribute to making consumers satisfied, so they help to establish deep roots in the market and become the source of vitality for the sustainable development of healthcare products marketing.

An interviewee from a Chinese traditional company about to go public mentioned that his company believes the key factors for success are quality and innovation (This company completed IPO in Dec. 2021). His company produces products with 60% of its raw materials imported from overseas to ensure its quality standard. In China, people think overseas materials always have higher standards of quality. The company also created new dosage forms like gummy and power to increase its existing product variety.

A traditional company with traditional sales channels invest 5% of their revenues in R&D annually, around USD4 million per year. One of them thinks both successful direct-selling companies and traditional companies prioritize their R&D investment. One interviewee from a fast-growing company said this wasn't as important in past years, but has become more important over the years as the company's topline and bottom-line have been improved significantly with the introduction of more new and innovative products. Their plan this year is to introduce 10 new popular products.

Another direct selling company which is the fastest growing company in China said that their products are the most important factor in the success of a company, because they are the soul of the company. This decides the variety and quality of product, and continuously launching new products can satisfy market needs and finally increase their sales performance.

Other interviewees from direct-selling companies all agreed that product is the most important factor to succeed. Companies need to think out of the box to differentiate their products in order to obtain a larger market share and be competitive and successful in the business. Quality and well-developed products lead to repeat purchase because they can provide rich experience and functionalities to the customers. Companies should invest in R&D, new product development, and quality control. Successful companies need to meet customers' needs with their products.

Executives from companies operating in traditional sales channels also thought that products and R&D investment are important for their success. R&D investment is helpful for a better product quality and developing a wider variety of products. Enterprise product research and development investment and final sales performance are correlated, research and development results make up an enterprise's intangible asset and capabilities. Consider R&D input and output according to the size of the company, development cycle, return on investment, investment cycle and other factors. In the healthcare industry, product packaging and branding are as important as the product itself. However, R&D investment shows that enterprises pay more attention to product innovation; Process improvement does not mean that its marketing result must be better. Developing more effective business principles and practices, more in-depth material research, the right marketing strategy, the right executive team, correct R&D investment and quality control can lead to successful performance.

4. Organization behavior

Organization behavior factors in this research refer to training and meeting frequency in the company, training provided to uplines, individual development plans for senior executives and management team.

All direct-selling interviewees said they pay much more attention to their executives' development (uplines and internal management executives) and always provide career development plans for them than traditional companies.

Direct-selling companies thought that training and meeting frequency for uplines are very important factors for their performance. A top Swedish company holds two overseas conferences with

more than 10,000 people every year and two large-scale conferences with distributors and their leaders in China. During the conference, good performance for leaders (uplines) is awarded by the CEO/COO of the group head office. New product listing information, direct seller commission plans (incentive plans), and promotion plans are also announced in the training and meeting. One successful company in China has several effective training programs focusing on the different areas mentioned above. Foreign-funded enterprises attach importance to family compensation and non-monetary compensation, while Chinese enterprises talk more about monetary compensation.

An American direct-selling company has even set up an enterprise university to help its employees grow from junior (executive title with ten referrals) to senior (senior title, executive title). They hold monthly meetings at the beginning of each month to communicate new announcements, update the company and products. In their training, they provide user-friendly training materials that are very easy to remember and understand (7 success factors for sales). They also adopt interactive education models used to train uplines individually or in a group. They think these trainings are the key for their success.

Another successful direct-selling company has held three or four national sales conferences with over 10,000 people. Uplines people want to be trained, and they like non-monetary incentives (awards, training).

Some direct-selling companies consider training and personal development to be the second most important factor after product, because frequent training improves the level of expertise of direct sellers and ensures that the sales team is aligned with the company's core members. Chinese customers do not have a lot of knowledge of nutrition products. The reason why direct-selling companies regularly train direct sellers is that they can teach more nutritional knowledge to direct sellers and thus improve customer service.

Training is the key to train direct sellers and promote sales. The particularity of nutrition product also determines its importance.

Compared with traditional channel enterprises, direct-selling enterprises believed that most traditional channel enterprises do not carry out the training required for product promotion but take advertising as their main promotion method.

The individual development plan for senior executives is also prioritized in direct-selling companies. People are the key to a company's success. The factors that restrict human beings are organizational governance and organizational structure.

Some successful direct-selling companies offer stock options to senior executives in China. They also provide a competitive incentive plan to the sales team. One senior director who sells to US investors said their development plans include annual general manager training by a group of CEOs and presidents, substantial investment in personalized training, cross-departmental training and clear career plans for the top 20 managers and employees, and competitive incentive/promotion plans for the sales team (Uplines and customers). One direct-selling company said compensation for direct-selling companies is important because the more employees are paid, the better they can support the business (Important level 3 to 4 out of 5). It is worth noting that Chinese executives like to receive English language training and management-skills training from foreign parent companies. The author found none of direct-selling companies list in China's stock market so far.

Another interesting point is that, when comparing the training accommodation between foreign invested companies and domestic companies, the author found that the conference accommodation, meeting location and other conditions of foreign-funded enterprises are much better than those of domestic enterprises. Domestic companies give extreme examples in the form of stories of successful salespeople (money-centric), while foreign-invested companies talk more about spirit, dreams and strategy. Foreign-invested companies are willing to invest in talents while local companies tend to use only relatives and friends with close relationships.

For training and personal development programs, most traditional companies do not conduct a lot of such programs. Some companies will attend third-party training, such as sending employees to Tsinghua/Peking University. A listed company has the full range of training. For sales staff, training is frequent, including in-house training, external training, pre-job training, product update training. Another listed company said employee training is something every business must do, but also mentioned the frequency and scale of training for sales staff.

More than seventy percent of executives of traditional companies think that in the direct-selling industry, sales people want to be trained, DS company trained sellers more frequently and with higher quality, and they prefer both monetary and non-monetary incentives (incentive travel overseas, board meetings abroad). Traditional companies have regular trainings.

Direct-selling companies provide professional sales training to their sales agents to help people developing sales and marketing skills. Direct-selling companies focus on the business-to-customer model, where there is a lot of interaction between the customer and the salesperson, whereas traditional

direct-selling companies have historically focused on business-to-business. Although some of them are now starting to operate the business to customer model.

Traditional companies said that industry and product training help unify employees' thinking. International exchange training programs change people's mindsets and make them more globalized. This is more common in direct-selling companies, especially large ones.

One listed company mentioned that they provided stock options to their executives. Most Chinese companies have a big portion of their corporate share belonging to individuals, and many of their executive management teams are relatives of owner of the company. Professional outside executives who joined the company feel they are isolated while working for some traditional Chinese companies.

In China's healthcare products market, if a company wants to obtain a bigger market share by selling only one product, its sales team must be very capable. More and more healthcare product companies are doing better and better in their incentive mechanism design and partnership system, which can stimulate the potential capability and talents of a front-line sales team. One direct-selling interviewee elaborated their competitive advantage over traditional ones in terms of their incentive plan system, because they only sell one product.

5. Investment in information technology

Ninety percent of the interviewees thought that information technology is important for a company to succeed in the healthcare industry. Two interviewees didn't think it is that important. One is from a direct-selling company with a small range of products, he said it is a factor of medium importance. Another one is a direct-selling interviewee who said she was not aware whether this is an important factor or not.

One executive who worked in Chinese direct-selling companies for more than twenty years said that if a company does not have IT knowledge and know-how, it will go out of business sooner or later. Information technology is a better resource for direct-selling companies than traditional companies, because direct-selling companies have strong offline promotion capabilities. When combined with IT, APPs and online sales channels, it is like a tiger with wings.

Direct-selling companies think IT has a long-term impact on company's performance, because the front office IT infrastructure promotes company product, commission rules and culture. Back-end IT programs calculate commissions for companies. IT function was not important before internet introduction, but is getting more and more important nowadays, because online shopping and cross-

border sales are now important sales channels for VMS products. E-commerce accounts for 40% of healthcare product sales channels, all of which rely on a strong IT infrastructure. Many companies now have more than 70 employees in their IT departments.

Foreign-invested direct-selling companies all agreed that mature IT systems in their parent companies make their business much easier to operate than domestic Chinese companies. The original ERP system of a listed direct-selling company in Sweden was all launched by the head office in Sweden (plagiarism). The company invests tens of millions RMB in IT system every year. This includes WeChat communication tools and other applications that provide an exceptional customer experience for their members. A company invested in a Python application which can record the person who browses the Apps, then the company can contact this person (potential customer) proactively. Another US invested direct-selling company has its original standard ERP system all launched (copied) from its US head office. The US IT team supports all major systems. China IT team provides help desktop support. One foreign-invested direct-selling company agreed that information technology is an important factor for their success. The powerful customer relationship management system developed by China's IT team enables them to provide efficient and effective services to customers. It is the 1st online ordering system in the industry in China. The App allows customers to place orders, view sales, and track referral performance. The company has around 100 to 200 people in its IT department, and invested in advanced/expensive hardware servers.

Direct-selling companies have sophisticated IT systems, including revenue records and commission information. They are not so important in traditional channels. IT is for bookkeeping and inventory management only.

A traditional company sees IT as an important factor as well. A company preparing to go public said it has increased productivity by 30% in the past three years while reducing its workforce by 15%. The reason for the layoffs is that automation supported by their IT systems eliminated the need for labor and improved product quality.

Another traditional company sees IT as an important factor in corporate performance, but the IT investment in DS is not so different from the traditional model. Investment in information technology affects business performance. The result is reflected in the data collection and production research and development process. Online IT investment is increasing as big data is needed to deliver product

information to specific target customers. They agreed that better investment would help the speed of business development, but should consider whether it is suitable and effective.

Most traditional companies believed that DS companies invest more in IT functions than traditional companies do. DS companies tend to develop their own IT management infrastructure to manage direct distributors, marketing campaigns, sales channels, and so on. Traditional sales companies use IT systems to connect to publicly traded websites such as T-mall and JD.com. An enterprise's IT investment depends on its latency. If an enterprise invests in sap or ERP internally, it is difficult to measure whether knowledge can improve the internal operational efficiency or help in expanding market share.

But one thing to point out is that if the IT system is developed in China, then the system will be more flexible for future functional improvements or changes.

Many platform manufacturers are promoting Customer to Manufacture (CTM) in China now, flexible production process needs the support of customized strong information system. Frontline demand pulling, demand changing pulling, internal manufacturing and raw material integration are the keys to improve product competitiveness. True CTM relies on deeper information technology applications.

6. Brand Value, Market Orientation, Customer Service and Product Support

Interviewees had different opinions on this factor's impact on business performance in the healthcare industry. The answer to the question of whether branding value has an impact on a company's performance really varies according to different companies and depending on their different development stages.

Word of mouth is the most important marketing method for direct-selling companies because the sales are BTC and the healthcare product knowledge needs to be transferred to potential customers. It is more convincing if they are told by a friend or close relationship.

One Europe No.1 brand direct-selling company said the brand value combined with 50-year company history provides strong positive endorsement to its business in China.

A fast-growing US direct-selling company illustrated that brand value is not very important factor for their entrance into the Chinese market. Their growing customer base in China helped the company in building its brand in China.

A top US direct-selling company said that brand value is important. Foreign popular brands entering the Chinese market will have a clear advantage over other companies that are completely

unbranded. The company does not advocate financial incentives, as Chinese companies do to attract customers with high cash incentives. Chinese consumers now like to research and learn about a brand online before buying. With the help of the popular T-mall and JD.com platforms, this kind of search is very convenient. Through reviews, they will find out whether a brand has a good reputation in the world, if so, people will accept it faster than waiting to hear the news and information about the product through word of mouth.

Recently, a fast-growing direct-selling company said its brand was established by winning a recognition award for its products from the China government's sports commission. A direct-selling company said branding value is important for a company that has a big sales volume and is not a key for a startup company. Brand is important also because of the downside of branding value. Any quality problem in Chinese healthcare industry will immediately damage the brand image and lead to poor sales performance.

It's worth noting that the Ministry of Commerce, a Chinese government agency, requires foreign-invested direct-selling companies to have three years of experience in overseas markets before they can apply for a direct-selling license in China, most of the direct-selling firms have more branding power than traditional ones.

Different traditional companies growing at different stages have different opinions toward the function of branding value. They agreed branding value affects product premiums, and companies can make better and more profit through effective investments with sufficient capital investment.

A traditional company's brand business is growing at a compound annual growth rate of 20%. They believed that brand needs time to accumulate its branding power. The internet has enabled new branding development dramatically. The old way to do branding was to promote through advertising. Their companies used to spend about USD 6m per year, and built up their branding assets at the end.

A listed traditional company in Hong Kong believed that brand value is very important to its reputation and customers' choice of products, resulting in improved company performance. It is also a key for companies to retain management and technical talents.

Other traditional companies thought that branding has an impact on sales but is not very important. Branding is more crucial in direct-selling companies than traditional ones. Successful direct-selling enterprises pay more attention to technology and quality control management than traditional enterprises.

A Chinese mainland-listed traditional company thought that the brand asset has a big impact on final sales. Brand trust and loyalty are important drivers of company performance.

One executive with more than 20 years of healthcare experience believed brand has a direct impact on sales. Customers trust their brands because of their history of excellence. However, they believed that if the old brand sticks to outdated rules and has no innovative products, then it is also easy to be left behind by other companies. Therefore, the old brands have to make dynamic changes according to market trends.

Foreign brands entering the Chinese market, if the team works well, it must have a competitive advantage over Chinese companies in building their own brands. They think the consumer population in China is older, they perceive overseas brands better than domestic brands. Some quality domestic brands have also done well in terms of products, marketing and channels, but they are still slower to promote than foreign brands.

The traditional view of foreign-funded enterprises is that brand value affects the marketing performance of enterprises. Foreign brands may not be suitable for the Chinese market, new brands may be competitive with a well-known foreign brand, depending on whether a foreign brand is tailored to meet customers' needs in China.

One interviewee thought that in the future, with the deeper influence of the internet, KOL will have a similar impact on product sales promotion like the direct-selling business model did in China.

7. Government relationship

Direct-selling companies all have a public relationship department in their organization structure. The function of the department is to register direct-selling licenses, understand government directions, and work with the company to communicate with government agencies, make sure the company is compliant with law and direct-selling regulations. Some traditional companies' interviewees said they do not have public relationship department for maintaining relationship with government agencies.

Talking about government relationships, interviewees said this is a sensitive topic in China because unlike the US or the UK, the Chinese government is deeply involved in regulating corporate business operations and management. Direct-selling company interviewees said that they did a better and continuous good job in maintaining relationship with government agencies for more than 20 years, which is helpful for their operation.

There are two special topics in China about doing business. One is a legal compliance, and the other is the company relationship with corporate and government agencies. The reason I talked about the legal compliance with interviewees is that there are complicated areas in interpreting China's direct-selling laws. Violation of direct-selling law may cause serious legal consequences and damage the company's reputation and sales performance.

Most traditional company interviewees thought that government relationships are very important in China if the company is large scale. They believed that DS manages the public relationship better than traditional ones.

Successful direct-selling companies all have very good government relationships. It is one of the most important factors for healthcare companies to succeed in China. According to direct-selling company interviews, there is often a headcount of around 20 in direct-selling business for working on direct-selling law compliance and government relationship maintenance.

Government implements stricter control over direct-selling companies than traditional sales companies, which really hurts direct-selling companies when they have serious cases like Quanjian in 2018. Quanjian exaggerated the functionality of their products and was punished, and its business was practically shut down in China by government agencies.

Interviewees said social factor is one of the top 3 important factors affecting sales performance. As mentioned in the beginning of the research, we are doing research on direct-selling companies who have direct-selling business licenses granted by the Chinese government agency, MOFCOM. However, there are now many companies that are doing relationship marketing without this kind of license, which is a potential risk for the sustainability of their business. Successful companies pay more attention to legal requirements and CRS. CRS has a positive impact on the companies' branding. Direct-selling enterprises pay more attention to the conformity of laws and regulations, standards and production quality control than non-direct-selling enterprises. In China, healthcare nutrition products need to have certificates registered with the government.

A company provides more service to the society and employees through an ESG program. As a result, a well-performing ESG will help companies in gaining customers' recognition and employees' loyalty, which eventually leads to the overall improvement of company performance. In some companies, the president's office is responsible for communication with the government and maintaining good social relations. Some government relationship departments mainly deal with the relationship

between government and enterprise, and the role played by this department is important to enterprise performance.

Contribution to Practice and Recommendation

This research has a number of implications for researchers interested in the area of direct-selling marketing and in traditional marketing channels of the healthcare industry in China. It used first-hand valuable interview samples and leveraged the scientific method, objectively explaining What Determines the Success of Direct-selling Firms in China's Healthcare Industry. The research conclusions are solid and present objective findings and valuable recommendations in generalization in the industry. Very few people have compared the direct-selling companies with traditional companies in China healthcare industry. The contributions of the paper generalize on selling of products in the healthcare industry. They can also apply to other products sold by direct-selling companies.

This research adds value to existing literatures by revealing the competitive advantage of direct-selling compared to traditional company in healthcare industry. These findings are an important extension to the direct-selling and traditional sales in healthcare industry literature, because previous studies had very limited knowledge about direct-selling in healthcare industry. Most existing literatures discussed questions about general analysis of company performance.

Below are the contributions of this dissertation in the areas of management practice.

Managerial Implications

This study has important implication for the success of direct-selling companies in healthcare industry. It reinforces the important impact of strategy, organization behavior, marketing, information and technology, social factor on sales performance. If a company does not have a promising and sustainable strategic plan, it will have difficulties in passing the growth period and entering into successful growth and mature stage. Each company can evaluate its different business lifecycles and refer to this study to prioritize its resources and capabilities to drive its company's success. This dissertation also emphasizes that the business plan of China's nutrition and healthcare products enterprises should be closely combined with target customers' needs, and should consider following aspects for its growth plan, including industry environment, especially marketing channel, new consumption trend, and new business model generated by new technology like e-commerce. With

respect to these points, direct-selling companies have done a better job than traditional companies. All the above factors have different degree of important value for guiding the marketing strategy and performance at different stage of company's development.

The findings strongly suggest that company should learn to build up vision, mission, culture and strategy as early as possible, because it is hard to change once it is embedded in the business. Specifically, if a developing company expect it's successful performance to become more sustainable and benefit to future growth, a clear strategic objective is more important than anything else.

This research also has policy contribution. The paper clarified key success factors for direct-selling's sales growth and verified competitive advantages of direct-selling companies, including their strategy, marketing, technology, organization behavior and social factor. Considering the range of contributions made by direct-selling companies with the respect of social health and total employment rate, the government can leverage this study to promote development of healthcare companies and the industry. Although direct-selling started late in China, as a rapidly rising emerging consumer market and the world's second largest economy, China's direct-selling market has made great progress in recent years. According to the World Federation of Direct-selling Associations⁷⁹, the number of employed persons were 5.19 million, 5.35 million, 5.58 million and 4.13 million respectively in the past four years in China, also showing a large decline in 2019.

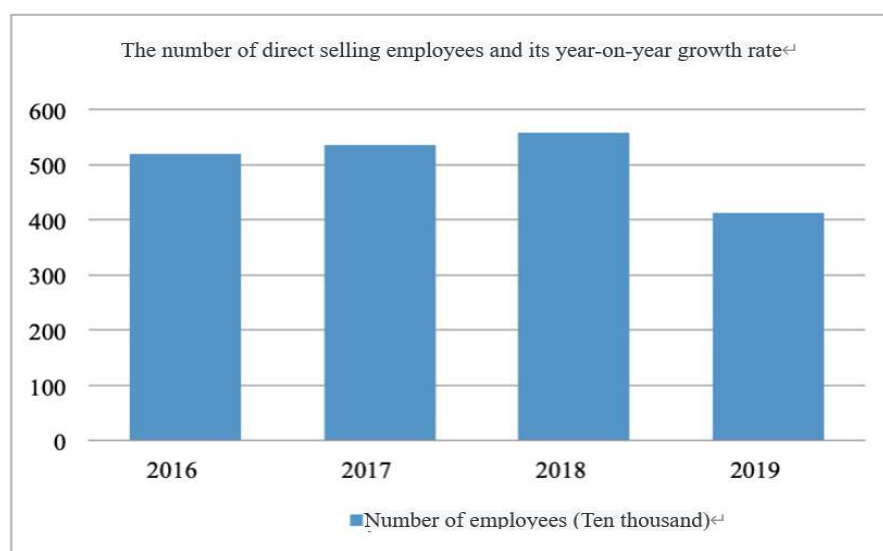


Figure 35: Number of direct-selling employees in Mainland China from 2016 to 2019

Data source: Drawn by Direct selling Industry Development Research Center, Peking University according to

⁷⁹ The World Federation of Direct Selling Associations. Overview of direct selling industry in the world and major countries from 2016 to 2019 [J]. Daily Review. August 16, 2020

The decline in 2019 was caused by stringent government regulatory action on direct-selling triggered by a scandal in December 2018. The China government tightened regulations on supplement direct-selling business. Quanjian is a company of nutrition supplement direct-selling business, which exaggerated its product function in their advertising, and caused serious national-level regulatory action over all direct-selling companies. Direct-selling accounted for 39% market value in 2018 and dropped to 33% in 2019. In 2020, the COVID-19 pandemic hit offline retail and direct sales once again. At the same time, companies without direct-selling saw strong growth between 2018 and 2020. Consumer demand remains strong and is expected to grow strongly in the future. Despite there being a few direct-selling companies which operate in an illegal way, the majority of the direct-selling companies are following the law and protecting consumers' rights properly. Therefore, different levels of supervision for different companies will be a more effective way to control direct-selling business in the future.

These findings are an important extension to the direct-selling and traditional sales in healthcare industry literature, because previous studies had knowledge related to direct-selling, and general analysis of company performance, but empirical examination of factors leading to company success in the healthcare industry has been lacking so far.

Research Implications

This paper adopts a series of research methods, mainly including literature and theory review, executive interview, and qualitative analysis, which make the research context more clear, more compact, structured, and more targeted.

There are three innovative research approaches in my dissertation. First of all, it analyzed the market environment, market segmentation, industry indicators, development process of nutrition, and health products industry in recent years and the prospect of nearly twenty years, which lays a solid theoretical foundation for macro-policy suggestions and micro-marketing strategies. Secondly, this paper applied the executive interview method to conduct qualitative research. Most importantly, the interviewees include senior executives working in direct-selling companies for the first time. These people usually discern in accepting interviews due to the sensitive market environment of direct-selling business model in China. The public is biased against the direct-selling industry because many customers or direct sellers have been cheated by those companies in the past. Thirdly, the interview

contents covered aspects of organizational behavior, marketing, strategy, technology and social factors of companies in healthcare industry, which has a wider scope of research factors than before.

The results of my research clearly show that strong and positive strategies, organizational behavior, marketing, information and technology, and social factors are important factors that help direct-selling companies to be more successful compared to traditional ones. Respondents from all large successful companies clearly stated that strategic factors, such as R&D and innovation, and long-term planning were the most critical factors affecting performance. It is a necessary but not sufficient to have organization behavior, marketing, information and technology, and social factor resources and capabilities. It was evident that almost all direct selling company interviewees reported social factors, public relations, and CSR are of secondary importance in the companies with mature business performance and stable growth rate. The result is consistent with extant literatures. My research provides empirical evidence to support the importance of maintaining good government relations for doing all business in China. All successful direct-selling companies invested effort and human resource in keeping good relationship with government agencies. If a company wants to succeed in China's healthcare industry, it needs to understand this unique factor.

The author found strong support from interviews for the relationship between clear strategic objectives and firm performance. Successful direct-selling companies have more strong and clear goals than other companies. In addition to money, or return on equity (ROE), many direct-selling companies are providing stable job for grass-roots and are willing to empower the ordinary people with a broad platform for entrepreneurship. Entrepreneurial orientation improves sales performance in terms of local responsiveness and initiatives that benefit the company as a whole. In contrast, there are barriers to knowledge sharing between managers and regular employees in traditional enterprises, leading to poor implementation of innovative measures and conservative ideas. Conservative orientation manifested in managers' reactivity, non-innovativeness and risk-averse behavior, resulting in low market share in China and a lack of contribution to the overall performance. These findings extend the healthcare industry literatures and deepen our understanding of the determinants of healthcare company performance.

The research suggestions of the paper are as follows.

First, the Chinese government should promote its direct-selling business in healthcare industry. That's easier said than done. However, this direct-selling business will solve the employment problem

of millions of people. With a higher employment rate, the country can stabilize its social environment. A stable political and economic environment will enable faster growth in GDP and attract more foreign and domestic investors to the country and to help in further developing the industry. It will not only provide jobs but also promote valuable and healthy products to normal people. During the pandemic, we found that the people pay more attention to personal protection and health. This is a good opportunity to enhance people's wellness by providing quality healthcare product to them and improve their immunity system. Another reason to promote direct-selling is the distance policy, which makes it difficult for people to go to public stores and shop offline. If customers are able to purchase the healthcare products that they need in a safe place such as a friend's home, this will meet demand and improve person-to-person communication during the pandemic.

Second, China can review the relevant policies and regulations of China's current nutrition and health products industry, further clarify and optimize direct-selling laws and encourage more entrants to engage in direct-selling business. The market environment of China's nutrition and health products industry is influenced by industry policies, industry economic environment, industry social environment, and industry technical environment. The industry policy environment includes industry supervision system, industry laws and regulations, and industry development planning. The economic environment of the industry includes the change of resident income level and consumption structure. The industry's social environment includes self-care awareness and personal nutrition development, disease care and sub-healthcare, urbanization and healthcare needs, traditional etiquette and gift consumption; The technical environment of the industry includes the technical characteristics of the industry and the knowledge products of healthcare products. Although the "Health Food Management Measures" issued by the Ministry of Health No.46 Order, the related management department in the nutrition and healthcare products industry in China, has issued a series of policies and regulations, but the nutrition and healthcare products industry has been in the development period, followed by a number of new problems also appear constantly. Therefore, the optimization of relevant policies and regulations will provide opportunities for those opportunists.

Third, China can encourage more direct-selling companies to list themselves on the stock market. In this way, more capital resources and capabilities can be accessible for them and they can better leverage their capability to provide better solutions for public health. At present, there is no healthcare direct-selling company listed on the public security market. In the U.S. and Europe, many direct-selling

companies are listed on stock markets. This disabled direct-selling companies to utilize public capital in developing and promoting their businesses in China. The formulation of industry standards for nutrition and healthcare products has always been a controversial and sensitive topic, with different opinions held by enterprises, industry associations and governments. Considering the low GDP growth rate caused by COVID-19 and so on, a perfect industry standard, the establishment of standardized organization nutrition and health products industry special, and a clear division of labor will enable the medical industry to grow and support many direct- selling companies. Such as the standardization organization of healthcare products, the standardization organization of healthcare products research and development, the standardization organization of healthcare products promotion, etc. Standards developed by the standardization organization will eventually be in line with international direct-selling standards. During this period, the relevant national government agencies can invite senior medical workers to discuss and study together in certain forms, and regularly visit and review the frontline nutrition and healthcare products for investigation, so that the standards formulated are more in line with the needs of Chinese enterprises.

Fourth, enterprises in this industry should constantly innovate, transform, and upgrade the marketing model. With the progress of Internet technology and the development of the online shopping user access devices, the economy has entered into the mobile Internet era. We should follow the development trend, constantly upgrade marketing models, and carry on the transformation and upgrading in order to adapt to the new customers' needs in different marketing channels of nutrition and healthcare products market. Several successful companies have already adopted new retail methods for marketing and have earned successful performance results.

On September 19, 2019, Herbalife entered into a strategic partnership with Chinese Internet giant Tencent on the digital transformation of its business in China. This also demonstrates that digital transformation has become an important strategy for Herbalife's business development in China. The strategic partnership aimed to rely on Tencent's strong technology strength, leading social ecosystem, and rich experience in facilitating digital upgrading across different industries. The ultimate goal of Herbalife's digital transformation was to empower the company's marketers to better connect with consumers and guide them to a happy and healthy lifestyle by providing convenient services best suited to their needs. Through digital transformation, it can open up online and offline circulation channels of

the whole value chain, realize user demand as the core drive, better empower marketers and serve consumers, and achieve efficient business growth in 2020.

Mary Kay supports consumers to set up their own online "happiness shop", supports women starting their own small and micro businesses from image design, create publicity, use high-tech services and big data tools, utilize logistics and offer customer service support to achieve zero inventory, zero stock and low-cost entrepreneurship.

On October 25, 2019, Nu Skin Greater China Innovation Headquarters Park Phase II held a groundbreaking ceremony in the headquarters park, announcing the construction of a digital production center project with a total investment of RMB 360 million.

The biggest feature of this factory is digitalization and automation. In the first quarter of 2020, more than 80% of Nu Skin's revenue came from the company's digital construction. In the future, Nu Skin will continue to strengthen the company's digital construction through strategic investment in technological infrastructure and digital tools, so as to regurgitate its business with technological digitalization. The new factory will not only adopt the latest technology and intelligent management system, but also will always carry out quality management throughout the entire production process, including the product process tracking platform, automatic storage system, seamless joint production and logistics links, etc. Upon completion of the project, Nu Skin's production automation level will be promoted; Production efficiency and product quality will be improved; Labor costs will be further reduced, product quality, safety and production efficiency will be improved by reducing the interference of human factors in the production process, Nu Skin's position in the cosmetics market will be enhanced, and its competitive strength will be enhanced.

It is worth mentioning that small batch flexible manufacturing is one of the bright spots of the industry's future operations - a digital and automated factory. This means truly achieving "customer-centric" market-oriented marketing through full digital means, combining front-end demand with back-end technology R&D, manufacturing and service, and better meeting the needs of young consumers through flexible supply chain production to strengthen the pace of "brand rejuvenation". According to a preliminary investigation, a total of 12 production lines have been designed for the second phase of the project. In the future, multiple production lines will be coordinated to flexibly arrange production of products, in order to meet the needs of different types of packaging products and achieve flexible

manufacturing. To advocate energy conservation and environmental protection concept, the project will also apply for the certification of Leadership in Energy and Environmental Design (LEED).

Amway has always treated talent development as an important corporate responsibility. Amway China Training Center was set up as soon as it entered China, which is one of the earliest professional training institutions in the industry. Since its establishment, the total number of trainees has exceeded 60 million. With the spread of digital technology, Amway is constantly upgrading its online training platform. Since the outbreak of the epidemic in February 2020, the company has launched the i Challenge Planet online training platform, which is free and open to the public, including a large number of training content closely related to life. For example, family epidemic prevention, parent-child relationship, sports and fitness, beauty makeup and beauty treatments, nutrition and so on, proved widely popular. According to the statistics, within a few months, nearly 560,000 people had taken part in the i Challenge Planet campaign.

In response to the current trend of the community economy and live streaming economy, Amway set up the MCN Academy in 2020 to provide courses on live streaming and community operations, which are of great value to the "new individual economy" practitioners of live streaming and community.

May 19, 2020 is Amway Artistry Fan Day. The WeChat mini program of Amway Cloud Shopping relying on the "Preferred Live Broadcast room", Yu Fang, president of Amway (China), sold products and shared her beauty tips on the live broadcast. Amway's Artistry beauty and cosmetics series set a new record of 1.23 million views and sales of RMB 100 million in 2 hours, making Amway a member of the 100 million RMB club.

Different from ordinary live streaming, the rapid rise of Amway live e-commerce online sales depends on the operation of private domain traffic and can be perfectly integrated with its own direct sales model. At the same time, Amway has perfectly integrated livestreaming e-commerce with Amway's diversified high-quality products, personalized services provided by Amway marketing staff, colorful community activities, offline experience stores all over the country, and fast and convenient JD logistics, thus stepping out of the way of livestreaming e-commerce with Amway's characteristics and organic integration with the original direct sales model.

Finally, it is recommended to implement a healthcare products supervision personnel responsibility system. This method requires the relevant government agencies responsible for the regulations and laws

of nutrition and health products in China to organize special teams to provide consulting work for health product enterprises.

In order to realize the real optimization and transformation, nutrition and healthcare products enterprises must consider the modern advanced marketing concept, combined with the actual market conditions to choose the marketing mode suitable for enterprise development. In the past, the marketing mode of "advertising, packaging, distribution of tabloids", which is good at the so-called "northern party" marketing, as well as the advertising mode of "garbage time and advertising bombing" represented by Harbin Pharmaceutical No. 6 Factory, will be constantly changed in this stage. Enterprises must abandon the short-term speculative direction and complete the transformation from a market speculator to a strategic investor.

With the development of the Internet, healthcare product enterprises should pay attention to the important impact of "Internet +" on the development of nutrition and health product industry. Nowadays, online marketing is occupying around 40% of the total market share. From the R&D and manufacturing of healthcare products to the marketing and sales of products, each step has been affected by the "Internet +". It reduces the cost of each component and is the key basic measure for the development of the nutrition and health products industry. People in the nutrition and healthcare products industry should also closely follow the footsteps of "Internet +" development, striving to master advanced technical knowledge and skills, so as to employ it as a success factor. "Internet + marketing talents" is urgently needed in the current market.

Although the nutritional healthcare products manufacturers are fully aware of full-time promotion on the core store terminal interception, but according to a large number of visits to different regional markets and in-depth interviews with promoters of various manufacturers, there are many defects in the construction and management of promoters in the marketing of nutrition and healthcare products at present. The promotion team of manufacturers generally has the following conditions: instability, lack of sense of belonging and identity. Enterprise training mechanisms are not sufficient and sales skills stay at a low level.

Efficient and effective marketing strategy is an essential factor for the success of a healthcare enterprise. For nutrition and healthcare products, terminal channels can be divided into three basic channels: direct-selling, pharmacies, and networks. Drugstores are one of the most practical and effective methods in the traditional marketing channel of nutrition and healthcare products in the

Chinese history. The establishment of drugstores is divided into different levels; it is best to have a certain display area, operated by manufacturers or dealers, using professional sales personnel in drugstores to promote.

The third is to build all kinds of membership clubs, aiming at maintaining customers and improving customer sticky level. The clubs pay attention to customers' needs, in return, they will build customer loyalty. Healthcare products enterprises must really care about customers, so that in the process of meeting marketing, customers can obtain the health, but also enjoy a happy experience.

"Online content marketing" has a unique advantage as it is an important part of the implementation of modern marketing media strategy. Enterprises take "Internet + healthcare products" as the first element, focus on the study of its wide dissemination and public expectations, to obtain public recognition. Through the operation of "Internet +" platforms such as Douyin and Kuaishou, the enterprise can timely understand the needs of customers, standardize and promote its products, eliminate the crisis of consumer confidence, and accurately locate customers.

The main contribution of this dissertation to the theory is that the analysis highlights that the five internal resources (social factors, organizational behavior, marketing, strategy, and information technology), together with corporate culture have critical positive relationships with direct-selling companies' overperformance compared to traditional companies in China. In addition, different resources have different levels of impact at different stages of the healthcare enterprise life cycle. Whether internal resources affected healthcare companies' performance has not been a topic in resource-based theory and other theories before. For the first time, this research conducted intensive executive interviews and highlighted the importance of resource-based view (RBV) theory in China's healthcare industry.

The research adds value to the literature by revealing the competitive advantage of direct-selling compared to traditional company in healthcare industry. These findings are an important extension of theories to the healthcare industry.

Limitation

Due to the limited learning time and knowledge level, information acquisition difficulties, and lack of time and energy, there are many deficiencies in this paper to be improved.

First, the difficulty lies in the acquisition of data. The direct-selling industry is not very encouraged by the Chinese government, and direct-selling law and regulations are not easy to be understood. As a

result, many direct-selling companies are afraid to disclose their business practices to researchers because they do not want to be punished by the government for any improper statements or actions. In addition, the management insights of many healthcare products enterprises are confidential and are generally not disclosed to the public. This leads to the inevitable lag in the research data collection.

Second, this study did not consider the impact of different types of company ownership and different leadership on healthcare product companies. It is suggested that future research focus on how different company ownership may affect a company's performance and whether different leadership styles have different impact on company performance.

Third, this paper did not analyze the market structure of the nutrition and healthcare products industry in the United States, Europe, Japan and South Korea, and did not analyze the development trends of the products and enterprises in the healthcare products industry in various countries to summarize the development experience of the nutrition and healthcare products industry from the aspects of globalization and integration point of view. In general, the U.S. market is well regulated and the cost of illegality is high. Scientific progress promotes the development of health food and returning to nature accelerates the development of health food. Europe has health food "package" promotion form, EU regulatory policies tend to protect the interests of consumers. The orderly and healthy development of Japan's nutrition and healthcare products industry mainly benefits from its sound legal system and strict market supervision. An ageing population is driving the Korean market. The growth of the healthcare product market, as well as the development of strict regulations regulating the healthcare product market, is mainly aimed at meeting the needs of the elderly.

Further research on overseas market can provide better knowledge for China's growth. The industry of nutrition and healthcare products will surely flourish and change people's lifestyle and encourage consumption.

Last, there is a limitation that only large companies were included in the sampling frame, and only successful companies. There may be some comments valuable from the companies who failed in their development process, which are not included in the interviews of this research. If these samples can be found, it is recommended to consider them in future studies.

Future Research

Considering the new trends and industry environment today, there are opportunities for future research. These new trends and government policies will change the industry circumstance and

competition structure. Future research shall consider analyzing the performance of direct-selling companies with that of traditional companies in healthcare industry in a dynamic environment to provide more insights for guiding companies in their successful development of business.

All data collected in this research is from successful healthcare companies. There are many companies which failed at an early or developmental stage; those data are not considered here. Collecting the data from failed companies is recommended for future research.

In 2020, the sudden outbreak of COVID-19 made consumers deeply aware of the importance of health, which greatly promoted the development of healthcare products industry, and the market size of healthcare products reached RMB 250 billion, with a year-on-year growth of 12%.

Chinese consumers have fundamentally changed their consumption concepts and willing to eat health food. Health food is gradually changing from optional consumer goods to required consumer goods in terms of consumption attribute, and health food is also gradually changing from high-end consumer goods and gifts to dietary nutritional supplements. These factors will promote the expansion of the overall market scale of healthcare products in China. The shift from healthcare products to must-have consumer goods, the market size would reach RMB 270 billion by 2021.

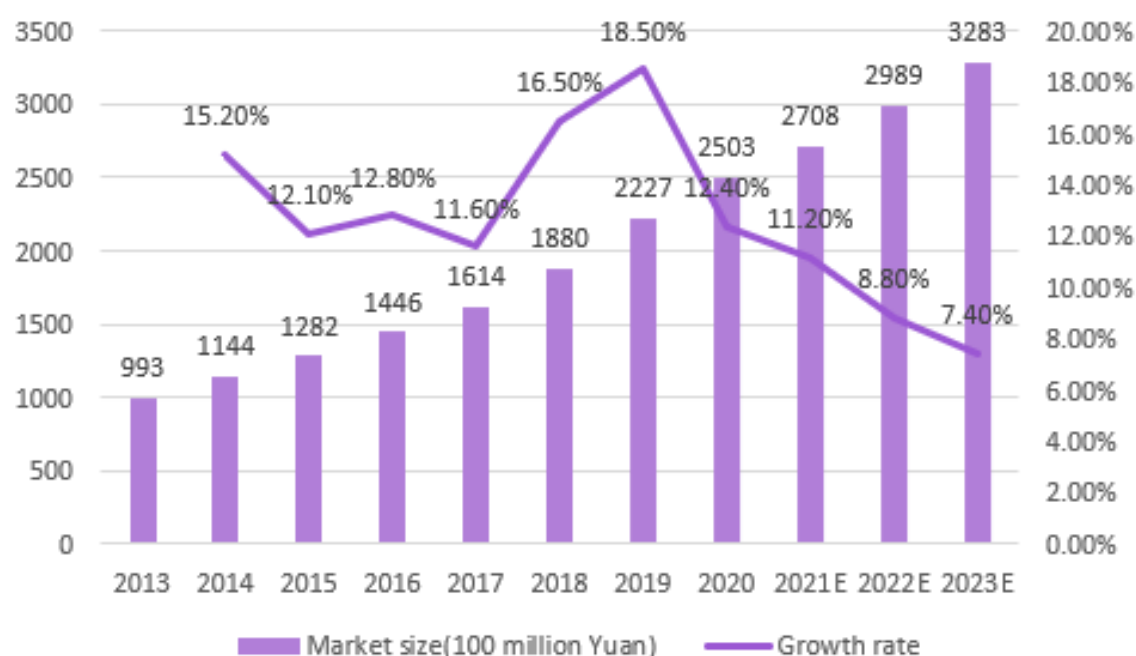


Figure 36: Market scale and forecast of health products in China from 2013 to 2023

Data source: iiMedia Research. www.hotds.com/news/html/26659.html. April 18, 2021

Healthcare products industry, as a rigid demand of the elderly, is an important part of the whole

pension industry, the market size has exceeded USD20 billion. Among them, 41.9% of the elderly "suddenly want to supplement their body with some nutrition" and buy healthcare products, and 19.4% of the elderly follow the doctor's advice.

It is worth mentioning that healthcare products are no longer exclusive to the elderly. The age of users has been expanding to the younger age and middle-aged, and young healthcare products market has become a new direction of the development of healthcare products industry. According to a report by CCTV news, an e-commerce platform in China saw a significant increase in health products such as eyes, vitamins and protein powder during the period of June 18, 2020, with the post-90s and post-00s becoming the main consumers of health products.

And the increasing demand for healthcare products by the young and middle-aged promotes the continuous expansion of the market scale.

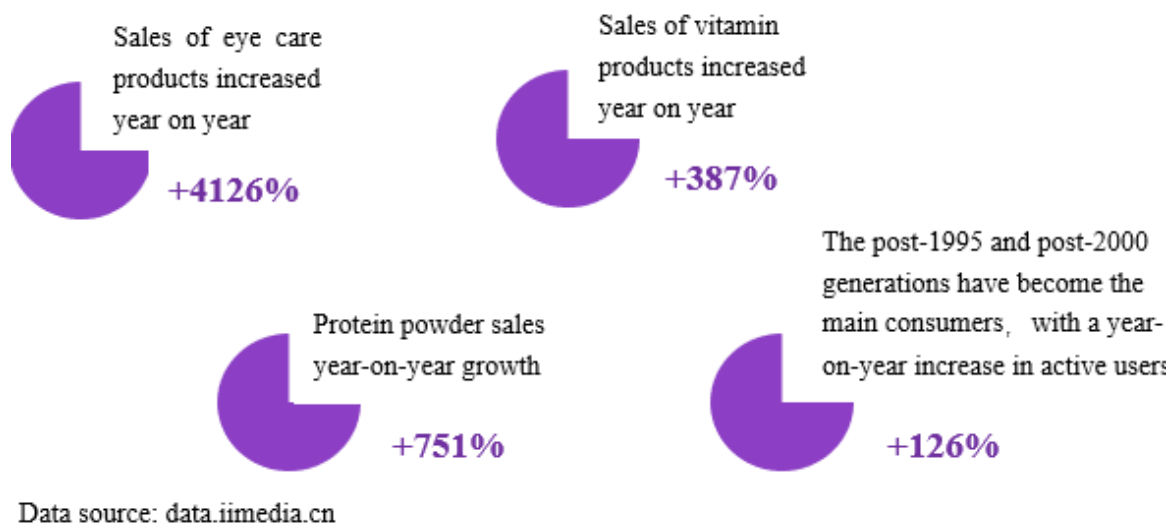


Figure 37: Sales data of healthcare products on an e-commerce platform in China during 618 in 2020

Consumers of healthcare products tend to be younger. In view of this, enterprises have also launched healthcare products featuring young consumer groups. Many enterprises can see that healthcare products are classified by population, and the market of young and middle-aged healthcare products is very promising.

Future development trend of healthcare products industry will need to be considered in future research.

1. The national attention, "big health" policy, is conducive to the development of healthcare product industry. The concept of big health runs through the policy. According to the "Healthy China 2030" plan outline, people's health will continue to improve by 2030, the health service capacity will be greatly

improved, and the scale of the health industry will be significantly expanded. The total scale of the health service industry will reach RMB 16 trillion, becoming a pillar industry of the national economy. At the same time, the outline of "Healthy China 2030" also stresses the need to promote the building of a healthy China, take prevention as the priority, and strengthen early diagnosis, treatment and rehabilitation. The main role of healthcare products is to enhance immunity, promote cell regeneration, and the rehabilitation of patients' bodies, which can not only improve the sub-health state and treat patients with sub-health and chronic diseases, but also play a role in the prevention and medical treatment of healthy residents. The good news of big health policy will be beneficial to the development of health product industry.

2. In recent years, the confusion about healthcare products occurred frequently, which aroused the attention of the supervision department. All kinds of healthcare products supervision policies have been issued after the chaotic tide came and became more and more fierce. With the development of the healthcare product industry, relevant regulatory policies will be gradually improved, and the healthcare product industry will be strictly supervised.

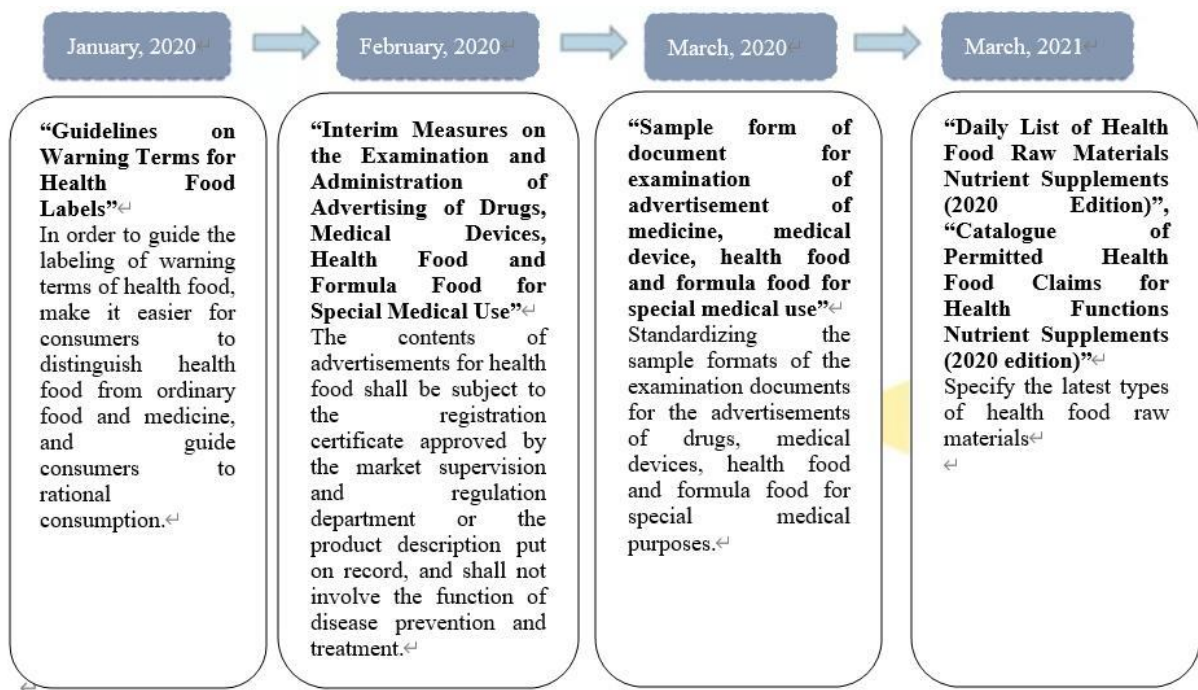


Figure 38: Policies and regulations on healthcare products in March 2020-2021

Data source: Collated according to public information

With the gradual standardization of the industry and the improvement of people's health literacy, the development of healthcare product industry presents a popular consumption, younger, product

diversification and personalized trend. On the consumers side, health food consumption is no longer a consumption of others, and gradually become a popular consumption, and young and middle-aged people's awareness of health food market has been greatly improved. On the product side, there is also a trend of diversification and individuation to meet the needs of different groups of people while meeting the needs of individuals. These two trends guide the development of enterprises. Healthcare product enterprises should increase investment in scientific research, develop diversified products, carry out all-round innovation in the raw materials, functions, research and development technology of products, and constantly meet the needs of consumers and products.

In future research, it is also worth investigating the impact of globalization on healthcare companies' development. Success factors for the last interviewed company, which built its competitive strengths through global M&A with a headquarter in China, is worth being researched in depth to discover how globalization influences the sales performance of direct-selling companies and traditional companies. This is a unique case of success achieved by a Chinese company acquiring manufacturing, R&D, and sales teams in the UK, US, Canada, and other developed countries, which then developed to be the largest supplier for U.S. and U.K. markets. This research should be done with a research method like a case study.

This paper aims to help both traditional and direct-selling companies to adapt to the consumption style of customers and meet the demand for healthcare products in the new media era, also hopes to bring some inspiration and reference to related enterprises in the nutrition and health product industry through the accumulation of experience, so as to promote the healthy development of the industry.

China's healthcare product industry is still in a period full of potential growth opportunities. The encouraging health policies, the “healthy China” movement, the increase of per capita income, and the acceleration of the aging of the population makes the whole society's demand for nutritious healthy food increase day by day. China's healthcare food market has been rapidly extending to young consumers and new healthcare products such as sports nutrition, melatonin, and collagen, which are wanted for the new lifestyle in Chinese society. All these factors will accelerate the growth of the industry. In the future, high-quality enterprises will grow at a faster compound annual growth rate (CAGR) than market average. And the exportation of China's healthcare food will further expand the market size. China's nutrition and healthcare products industry should continue to improve the industry's scientific and technological innovation capabilities, product support and service capabilities; Continue

to expand the strength of the industry; And continue to promote the upgrading of the health food industry. Industrial development should unswervingly take science as the guide, unswervingly take the road of high-quality development, unswervingly improve its core technology and core competitiveness, which is the only way to the healthy development of the industry.

The products distributed by online platforms include healthcare product, children's medicine, gynecological medicine, cold medicine, and so on. In addition, Dingdang Drugs has worked with 200 well-known pharmaceutical companies to create the “FSC Pharmaceuticals Alliance Health Service Project” which will extend the O2O model to the factory, open up CTM pharmaceutical companies, pharmacies and consumers, and integrate traditional industry enterprises with industry resources, in order to reduce the cost of medicines from the upstream of the industrial chain through centralized procurement of raw materials, packaging materials, and accessories from alliance members.

The boundary between traditional companies and direct-selling companies has been gotten more and more blurry in recent years because of the introduction and development of e-commerce. I suggest further research on how companies react differently to the latest market trends, such as online content markets with Tiktok and Kuaishou as their main marketing platforms. The speed and extent to which a company leverage the new media content communication opportunity online will probably determine the success of the company in the healthcare industry in the future.

Appendix A Interviewees' Company Information

No.1: Management office in Shanghai. Two manufacturing facilities in China (One in Beijing, One in Kunshan)

Corporate performance 30% to 40% growth every year (60% growth rate in 2017)

Corporate performance ranking No. 28 of direct-selling sales rankings

1.5 billion RMB sales value in 2017

No.2: Management office in Shanghai. Two manufacturing facilities, one in Shanghai, one is Nantong, China

Corporate performance increased dramatically in 2017 and 2018. Sales performance increased 100% in 2017

Sales performance ranks No. 18 of direct-selling sales rankings

2 billion USD global sales value in 2017 (8 billion RMB sales value in 2017)

No.3: Management office in Shanghai. One manufacturing facility in Hangzhou, China

Stable corporate performance in 2016 and 2017

Corporate performance ranking No. 5 of direct-selling sales rankings

9.9 billion RMB sales value in 2017

No.4: Same as No.2

No.5: Three Customer Experience Center in Shanghai, Guangzhou, Urumchi

No.6: Factory and 9 sales centers all in Weihai, Shandong Province.

The performance in 2019 is same as 2018

Sales revenue RMB 560m in 2019

No.7: 126 stores in China, RMB 223 million sales in 2019

No.8: 500 employees, wholly owned by US investors

Corporate performance 4billion to RMB 5 billion, Products includes VMS and personal care

Company ranked top 20 in world DS companies, and No.17 in the Chinese market

No.9: China's head office in Shanghai

Around 780m Euro healthcare product sales in 2019

No.10: China's head office in Hongkong and one manufacturing facility in Guangzhou

Corporate performance RMB 10.9 billion in 2019 (Around \$ 1.7billion)

Stock 1112.HK

No.11: Corporate performance around RMB 30 billion

No.13: Corporate performance RMB 20 billion

Company performance ranking Top 3 in China

No.15: One of the two companies producing NMN in China

No.16: Corporate performance 1 billion RMB sales.

No.18: P/E is 30 to 50

No.19: Top10 DS company

No.20: Chinese head office in Jiangsu province, 9 manufacturing facilities in the world, 4 in US, 4 in China, 1 in UK Corporate performance over 1 billion USD

Appendix B Ranking of sales performance for direct-selling companies (DSDOD.COM)

Enterprise	Performance in 2016 (Unit / 100 million)	Performance in 2017 (Unit / 100 million)	Growth rate	Ranking in 2017
Infinity	270	213	-21.11%	1
Perfect	216	200	-7.14%	2
Amway	216	200	-7.14%	2
Quanjian	200	150	-25%	3
SUNHOPE	78	100	28.21%	4
Marykay	98.8	99	0.20	5
New Era	93	95	2.15%	6
Joymain	120	80	-33.33%	7
Longrichi	51.61	63.5	23.04%	8
Herbalife	61.9	59	-4.68%	9
Yandi	49.6	49.8	0.40%	10
Suzhou Luye	3	49.7	1566.67%	11
NU SKIN	49.2	44	-10.57%	12
Jintian International	27	39	44.44%	13
Hualin SuanJianPing	36	39	8.33%	13
BabyCare	35	37.8	8%	14
Contrex	27.5	36.7	33.45%	15
Melaleuca	-	33	-	16
Jialai	28	32	14.29%	17
Rolmex	40	32	-20%	17
Yofoto	26	29.8	14.62%	18
Resgreen Group	18	21.8	21.11%	19
Pro-Health	-	21.2	-	20
Apollo	28	21	-25%	21
Enron nano	-	17	-	22
AnFa	16.3	16.6	1.84%	23
Kangmei	13	15	15.38%	24
Oriflame	9.3	15	61.29%	24
Alphay	13.8	14	1.45%	25
North Continent	-	10	-	26
Ideal	8.9	9.7	8.99%	27
Milo	-	9.5	-	28
XNFHF	8.2	9	9.76%	29
Kaslyju	7.5	8.2	9.33%	30
Jinmu	-	7.8	-	31
SPRING TOWN	2.1	7	233.33%	32
Weicon	35	6.9	-80.29%	33
TIENS	-	6	-	34
CNI	3.5	6	71.43%	34
Ringier	4.93	5.13	4.06%	35

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