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THE U.S. DIRECT-SALES COMPANY TEAMED UP WITH AMERICA'S MOST PRESTIGIOUS UNIVERSITY TO HELP MAKE CHINA ITS BIGGEST MARKET.

BY DUNE LAWRENCE
AND LIZA LIN

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IN A SWELTERING JULY EVENING IN the inland Chinese city of Hefei, 1,000 people whistle and clap as Cao Yuchao tells them about Amway Corp., the household-products giant named after the American Way.

Against a rainbow backdrop and the Chinese characters for *glory* and *dreams*, Cao, Amway's local chief, paints a glowing portrait: China has been the company's top market for nine years, with booming sales of Artistry cosmetics and Nutrilite dietary supplements.

Amway also was a sponsor of China's team at the 2012 Olympics. "I can't say for sure that these champions were successful because of Nutrilite products, but I can say for certain that every medalist has taken a Nutrilite product before walking up to the winner's podium," says Cao, who's dressed in a gray suit and tie.

Amway offers great rewards, Cao tells the salespeople and potential recruits gathered before him: The company has paid 57 billion yuan (\$9.3 billion) in commissions and royalties

to Chinese distributors. It's taken the best salespeople on free trips to Paris and Rome. And it gives each of its 300,000 Chinese representatives the chance to be his or her own boss.

Cao introduces dozens of successful representatives, who tell the audience, "Believe in yourself and nothing is impossible." Gao Hanping, who left a job with the railway ministry for Amway, starts with a video showing his luxury car, a home with a garden and photos of his vacation in Las Vegas. "People say working for Amway is tough; they don't want to do it," Gao says. "Hard work is the key to success."

Since its founding in small-town Michigan in 1959, Amway has pitched its direct-sales system—a corporatized version of peddlers going door to door—as a path to wealth and happiness. Now, its "American Way" depends increasingly on China, which accounted for almost 40 percent of parent company Alticor Inc.'s \$11.3 billion in global revenue last year. That's a remarkable turnaround, considering that China banned direct selling

entirely 15 years ago, endangering Amway's growth.

Amway won back its place in China by changing its business model and opening stores for the first time. It also improved its reputation by teaming up with America's most prestigious school: Harvard University. In a program bankrolled by Amway at a cost of about \$1 million a year, Harvard's John F. Kennedy School of Government has been training Communist apparatchiks known as Amway Fellows. Since it started in 2002, the program has brought more than 500 Chinese officials to Cambridge, Massachusetts, to study public management for a few weeks. Every group also visits Amway's headquarters in Ada, Michigan, near Grand Rapids.

In a country where nothing is more valuable than *guanxi*, the term for the connections considered crucial to doing business, Amway has supersized its network thanks to the Harvard program. Though there are no public lists of participants, BLOOMBERG MARKETS identified 50 alumni through references in resumes in official publications and on websites.

The Amway Fellows include current leaders of Henan, Ningxia and Shaanxi provinces, with a combined population of about 138 million; the party secretaries of cities Nanjing and Wuxi; and the national vice ministers of civil affairs and industry and information technology. Also on the list are two officials who became heads of provincial branches of what's now the China Food and Drug Administration, which approves the sale of nutritional products and cosmetics, Amway staples. Another alumnus is a former official in the government agency that polices direct selling.

Since the program began, Amway's sales in China have surged more than fourfold. The turnaround is all the more striking because Amway—a company dogged around the world by accusations that it's a pyramid scheme—won over Chinese officials in part by painting itself as a crusader against such abuses. Pyramid schemes lure individuals to join a business that grows mainly by recruiting other people rather than by selling products to consumers.

Harvard has benefited from its association with Amway. The program has raised the profile in Asia of the Kennedy School, whose mission is to train enlightened public leaders and which was less well known there than the university's vaunted business school. The Kennedy School has started several similar programs for officials from Asia—a lead its elite peers have followed.

The Amway Fellows get to put the prestigious imprimaturs of Harvard and its partners in China—a policy research arm of China's State Council and Tsinghua University—on their resumes. (Of the 20 fellows that Bloomberg contacted, three declined to comment and the rest didn't respond to faxed or e-mailed interview requests.)

Scott Balfour, vice president and lead regional counsel for Amway in Asia, says the Harvard program is just one of many that the company is involved in to help local communities. "We'd have the same success without this program," he says. "I don't think this is a linchpin of our success, but we certainly are very proud of it."

Audie Wong,
a former English teacher, heads Amway's China unit.



Amway's *guanxi* with officials is impressive, says Corey Lindley, who helped Provo, Utah-based Nu Skin Enterprises Inc. establish its skin-care direct-selling business in Asia and spent four years in China for the company. "You have to build relationships with the government, and Amway has been a master of that," he says.

ANHUI, THE PROVINCE IN WHICH CAO presided over the July rally, shows how strong Amway's ties to local officials can be. Hefei, some 400 kilometers (250 miles) west of Shanghai, in July announced the winners of its Amway Cup, which solicited cartoons and poetry illustrating illegal pyramid schemes. The competition was sponsored by the city government, including the local Administration for Industry and Commerce, which polices direct selling.

In 2011, the province staged Anhui Sword, a campaign to combat pyramid sales schemes. In one city, Amway co-organized the program, and an Amway press release shows a company worker and local AIC officers staffing the same booth and handing out information. In four months, the province shut down 1,302 pyramid schemes involving about 7,200 people, provincial officials announced that December.

The top official at a press conference announcing the campaign was Anhui's vice governor, Tang Chengpei, according to another press release. Tang, who has since been promoted to provincial party secretary, was a 2002 Amway Fellow.

AMWAY, WHICH WAS FOUNDED IN 1959 by Richard DeVos and his friend Jay Van Andel to sell a liquid household cleaner, has become a global giant. Today, it employs more than 21,000 people in about 100 countries and territories and sells some 450 different products through a network of more than 3 million "independent business owners," the company's term for its nonemployee sales force. DeVos, 87, had a net worth of \$8.3 billion as of

Sept. 15, making him the 144th-richest person in the world, according to the Bloomberg Billionaires Index. In addition to a 50 percent interest in Alticor, he's the principal owner of the Orlando Magic basketball franchise and funds Christian organizations and free-enterprise groups such as the Heritage Foundation, a think tank. His son Doug, 49, is president of Amway. Van Andel, who died in 2004, was also a billionaire. His son Steve, 58, is now Amway's chairman.

Traditionally, direct sellers ply their wares to consumers face to face rather than through stores, says Bill Keep, dean of the business school at The College of New Jersey in Ewing. Many such companies employ something called multilevel marketing: Their salespeople earn money not only by selling products; they also get rewarded for recruiting more salespeople beneath them—qualifying for bonuses or other compensation based on purchases made by those that they enlist, Keep says. "The burden of recruiting and training is now on the salespeople, and it actually lowers fixed costs for the parent firm," he says. "But that recruitment aspect of it carries the risk of pyramid-scheme behavior."

Therein lies a gray area, Keep says. In legitimate marketing, the main purpose is to make sales to the consumer. In a pyramid scheme, salespeople are primarily rewarded for recruiting others, he says. Telling the difference between the two requires transparency about how much of salespeople's earnings ultimately come from selling to consumers versus to recruits, he says.

President **Doug DeVos** wrote an article for the *Harvard Business Review* about Amway's experiences in China.

Amway says it doesn't break down sales in that way. "The traditional plan, which operates in most of the world, can't be deemed a pyramid, because no one earns a thing based on the act of recruitment," says Michael Mohr, Amway's general counsel and secretary. "Benefit is only accrued based on the sale of product. That has been misunderstood."

In China, Zheng Yimei, a petite 23-year-old in a white blouse, black skirt and heels, first heard about Amway from someone she met at a bus stop five years ago. Since then, she's attended meetings regularly at Amway stores in Hefei. Zheng says she wanted the opportunity to work for herself after dropping out of school at 14 and toiling as a garment worker, in a bakery and at a supermarket weighing produce, where she earned 700 yuan a month. She says she has bigger ambitions now.

Two salespeople in China told



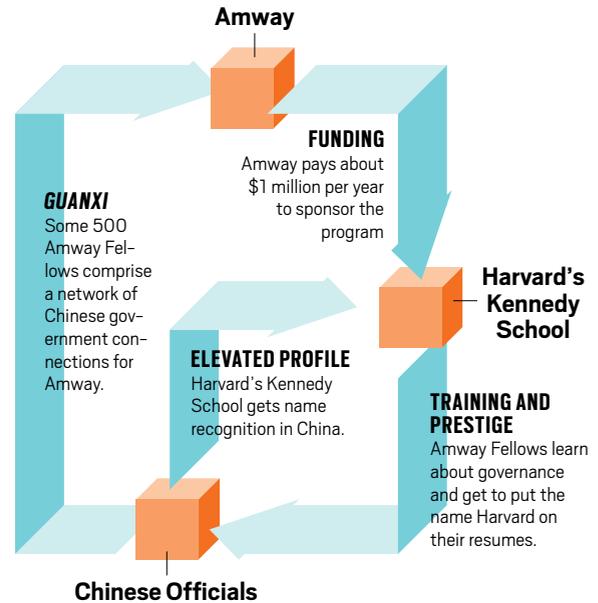
BLOOMBERG MARKETS how Amway's compensation system works: The more products you sell, the higher the commission you get. One of the salespeople showed **BLOOMBERG MARKETS** a document on the Internet with detailed illustrations of the system. In the fiscal year ended on Aug. 31, 2,500 yuan in net sales earned a commission of 9 percent, sales of 7,500 yuan earned 12 percent and on up to the top rate of 27 percent on net sales of 125,000 yuan or more. The salespeople said they would also earn a bonus on the sales of each person they brought into the organization. If the salesperson made 8,000 yuan in net sales and enlisted four people, who each also made 8,000 yuan in sales, he would get a 3,360 yuan bonus (18 percent of the total 40,000 yuan in revenue minus the 12 percent, or 960 yuan, that would go to each of his four recruits).

It's not correct to say a salesperson would get a bonus for sales made by recruits, Amway's Balfour says. The online document isn't an Amway document and isn't accurate, he says. The company has two categories of distributors in China: sales representatives, who earn commissions solely on their own personal sales, and authorized agents, individuals who formally register with the government as businesses. "Sales representatives are true direct sellers in that they're going out and selling the product to family and friends," Balfour says. "Authorized agents actually have a fixed location." The sales from agents' shops are counted as personal volume, he says.

'WE HAVE A FABULOUS GOVERNMENT RELATIONS TEAM,' AMWAY'S WONG SAYS. 'WE WERE REALLY BORN OUT OF A CRISIS.'

MUTUAL BENEFITS

Amway, Harvard's Kennedy School and Chinese officials each gain from their unusual relationship.



Under Chinese law, Balfour adds, "networks and groups are not allowed," so Amway structures its business differently than in the rest of the world.

China's 2005 Regulations on Direct Selling Administration stipulate that "the remuneration paid by the direct-selling enterprise to its direct salesman shall be calculated only based on the income of the products sold to the consumers."

In Beijing, framed photos of Amway executives with Chinese leaders going back to Jiang Zemin plaster the wall at Amway's office, a command center that takes up the 11th floor of a building across the street from the Ministry of Commerce. Golden hammer-and-sickle symbols on red fields adorn the cubicles of Communist Party members on staff.

"We have a fabulous government relations team, and the origin of that is that we were really born out of a crisis," says Audie Wong, president of Amway's business in China. "We had to solve crises over and over again." Wong, 61, joined Amway in Hong Kong in 1981 after spending three years as an English teacher at a Catholic school there.

The crisis Wong is referring

to came in 1998. Amway meetings like the one in Hefei made the Chinese authorities nervous because they feared the gatherings might be a cover for religious or other rallies, says Herbert Ho, a former Amway China executive and the author of a 2004 U.S.-China Business Council report about regulation of direct selling in China. Unscrupulous entrepreneurs with fraudulent sales schemes also brought scrutiny, Ho's report says. In one notorious case in a town in Guangdong province, a Taiwanese company convinced farmers to buy a foot massager for 3,900 yuan—about eight times the regular price—and pay 800 yuan to join its sales force, the report says. Participants rioted when they realized they'd been scammed. Similar incidents of social unrest triggered an official backlash, according to the report.

China banned direct selling in April 1998. The timing was lucky, Wong says, because China had begun negotiations to enter the World Trade Organization and didn't want to be perceived as shutting down U.S. companies. Amway and other direct sellers lobbied U.S. politicians and policy makers to raise the ban in the WTO talks, Wong says. Later that year, China agreed to let Amway and several other

international companies continue operating, with modifications, including opening stores. Amway, which had never before had retail outlets in any country, now has close to 300 in China. It also began manufacturing in China and advertising there. “We needed to demonstrate that Amway would be a long-term honorable corporate citizen in China,” Doug DeVos, Amway’s president, wrote in an article chronicling the company’s China experiences that was published in the April issue of the *Harvard Business Review*. The article doesn’t mention Amway’s connection to the Kennedy School.

China isn’t the only place Amway has had crises. In the U.S., the Federal Trade Commission investigated the company in the 1970s for price fixing and misrepresentation of the potential profits salespeople could make. The FTC in 1979 found that Amway was not a pyramid scheme but ordered the company to stop making misleading earnings claims and fixing prices and to disclose information on the average income for its salespeople. Active U.S. salespeople earn an average of \$202 a month, according to the most recent company figures. Balfour says Amway doesn’t publish such information for China.

In 2010, Amway agreed to settle a class-action lawsuit filed by former distributors in California, alleging that it was a pyramid scheme. Amway agreed to pay \$55 million in cash and

Amway opened stores in China like the ones on this page, its first anywhere in the world.

free products and overhaul some business practices at a cost of \$100 million, without admitting wrongdoing.

The U.K. government sought to have Amway shut down there in 2007. A court dismissed the case the next year on the condition that the company make changes including disclosing average earnings data for its salespeople. “When we realized how the Amway business was being perceived, we made changes,” Mohr says.

Amway also has critics in China. An instant-messaging chat group called Oppose Amway on Tencent Holdings Ltd.’s QQ service has more than 500 members who gripe that the company’s selling tactics are a pyramid scheme, that products are overpriced and that it nurtures cultlike devotees.

Any large company faces critics, Balfour says. “Many of these sites or groups are operated by former distributors that were sanctioned by the company,” he says.

Mao Shoulong, a professor of public policy at Renmin University in Beijing, argues that Amway’s funding of the Harvard program is inappropriate. “Of course this influences Amway’s position in China; they’ve got provincial



governors and department heads visiting their headquarters each year,” he says. “Government officials shouldn’t be taking money from a company to travel to the U.S. or visit sites around the country, especially when one of those stops includes the company’s headquarters.”

Balfour says the company doesn’t have any say in which officials are chosen to attend the program. “I don’t think our success is in any way dependent on this program,” he says. “Any educational program just helps the business environment generally.”

Corporate backing isn’t unheard of at the Kennedy School. Out of 1,049 sponsored awards from July 2000 through June, 39 were from for-profit companies such as Amway, according to school records.

The school began a push to focus more on Asia in the late 1990s and hired Anthony Saich, who had run the Ford Foundation in Beijing for five years, to make it happen. In 1998, the school began training about 20 Chinese officials a year through a fellowship funded by New World Development Co., a Hong Kong-based real estate company. Lu Mai, a policy researcher for China’s State Council who had attended the Kennedy School in the 1990s, sought Saich out to propose a more ambitious initiative to train local officials.



TOP: IMAGINECHINA; BOTTOM: JASPER JAMES

Saich liked the idea. He drew in Tsinghua as a Chinese partner, alongside the State Council's Development Research Center. Tsinghua had created a school of public policy in 2000, and Saich says he was eager to promote ties with it, as well as to have a partner on curriculum and training development.

Money quickly became a sticking point. "Sending 50 senior officials to America was not approved of by some people in China," says Saich, 60, a native of the U.K. who has written or edited more than 20 books on China. "There were a lot of fears about what the program would teach, would it be worthwhile." So Saich began looking for a company that would be willing to pay for the program in exchange for a chance to improve its relations with the Chinese government.

Edward Cunningham, then a 24-year-old program officer who worked with

Saich, suggested Amway. Cunningham was well versed in Amway's travails in China: He'd written a paper about its corporate strategy there for a class at the Massachusetts Institute of Technology, where he later earned a Ph.D. in political science. And he had a connection to Amway: His uncle had managed the design and procurement of luxury yachts for the DeVos family. "I at least had an idea of what Amway had gone through," says Cunningham, who's now an assistant professor at Boston University and director of the Asia Energy and Sustainability Initiative at the Kennedy School.

Cunningham sent a letter to Doug DeVos that ended up on Wong's desk in Beijing. Wong saw a great opportunity. "It has this combination of the best brands," Wong says, laughing. "You have Harvard, you have Tsinghua, and you have the State Council." Amway signed up.

In the hallway outside Saich's office near the Charles River in Cambridge, a newspaper cartoon hangs on the wall. In the first frame, an official in a Mao suit has jumped up, raising his fist before a Chinese flag to say, "I staunchly oppose America's hegemony!" In the second frame, he's grinning ear to ear as a seated official says: "You are very patriotic. We'll send you to Harvard for training next year!"

Amway Fellows, who are selected by the Communist Party, prepare for two weeks at Tsinghua before studying government functions from budgeting to crisis management at Harvard. Classes and lectures taught by well-known Harvard faculty—Joseph Nye, famous for his study of political power and influence, for instance—are translated into Chinese. The group takes trips to local institutions such as the Boston Redevelopment Authority

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and then travels for a fifth week of site visits, including a stop at Amway's headquarters.

An Amway employee from China travels with the officials to Harvard to monitor their health and happiness, Saich says. And the company has suggested adding China-specific case studies, he says.

Saich says the sponsorship lets Amway show it's interested in more than profits in China. "It gives them something to talk about with senior government officials," he says. "Secondly, it probably gives them a local network base that they can interact with. They have people from the program in every single province around China."

Wong says there has never been any direct commercial gain to Amway China from the program. Still, he adds, "its importance has become more and more noticeable."

Amway has been able to accomplish things other foreign enterprises haven't. It was the first and remains the only foreign company allowed to register a charitable foundation with the Ministry of Civil Affairs, Wong says. Jiang Li, one of the vice ministers of civil affairs, is a former Amway Fellow. The company also makes donations and organizes volunteers to contribute to government charity efforts.

The Kennedy School's Ash Center for Democratic Governance and Innovation, which Saich heads, now



Anthony Saich has helped the Kennedy School increase its prominence in Asia. A cartoon about Chinese-U.S. relations hangs on a wall outside his office.

trains city staff from Shanghai and Indonesian and Vietnamese officials. State-owned China Southern Power Grid Co. and Thai investment firm Charoen Pokphand Group Co. have sponsored training programs at the Kennedy School, whose recent graduates include Bo Guagua, son of Bo Xilai, the disgraced former member of China's ruling Politburo.

The Amway-funded program has provoked online criticism by Chinese citizens who question the need and expense of sending public officials overseas, Saich says, adding that many Chinese don't know how the program is funded.

This year's program was shortened to 12 class days at Harvard from four weeks in previous years. Julian Chang, executive director of the Ash Center, says the Chinese government has been cutting back on perceived excesses, including overseas training.

The students also spent two days in Michigan.

Meanwhile, in China, Amway's network continues to grow. Zheng, the saleswoman in Hefei, is now devoting herself full time to selling Amway products, though she has yet to make any money. "Amway is my China dream," she says. "If you speak about education, I don't have much. If you focus on relevant work experience, I haven't got much either. It's my ticket to a better life."

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