

Amway: Formula for Sales Success

By Nagami Kishi

After setting up in a warehouse area of Tokyo's Shinagawa district with a staff of just 11 people, Amway (Japan) Ltd. has burgeoned into a ¥1 trillion a year business, with a huge network of customers and distribution agents throughout the country. The increase in its turnover to ¥954 billion (\$7.06 billion at the rate of ¥135/\$) in the year to last August meets one of the conditions to qualify Amway as a major company and is very significant, according to its president, William A. Hemmer.

Amway sells a range of over 150 items including detergents, cosmetics and nutritional products directly to its customers and through agents, all of which it calls "distributors." Distributors are asked to buy a "starter" kit for ¥8,000, which includes a business manual, a product guide, a price list, various slips, and information on ethics and business practices—everything necessary for doing business.

Network of friends

The company relies on direct sales rather than selling through stores. Its products are sold solely through its distributors, who buy them at 30% below the regular price. They then sell these products through networks of friends and acquaintances. Distributors are also involved in what is called "sponsoring activity," which is to invite their friends and acquaintances to also become distributors. When these new distributors achieve a certain level of sales, they get a bonus.

After raising sales still further, they are promoted to a direct distributor (DD), or a leader of distributors. General distributors buy products through DDs. There are more than 700,000 distributors. Out of these there are about 210,000 active distributors who actually sell products other than buying for themselves and are involved in sponsoring activities.

The average annual income of an ac-

tive distributor is ¥190,000 (approximately \$1,400). Many of these people are housewives and salaried workers who are working for Amway as a side job. The people who are considered to be true workers are those at the DD and higher levels. There are 4,800 such pairs of workers (many of them are husbands and wives), and their average annual income is approximately ¥4.4 million (\$32,600). DDs are also ranked differently depending on their performance, being classified as Ruby, Pearl, Emerald, Diamond and so on. There are 83 pairs of DDs with the rank of Diamond, with average annual incomes of ¥16 million.

Although distributors are independent entrepreneurs who are not employees of Amway as such, many of them are housewives who buy products for their own homes and who also have a sales network of friends and acquaintances. Nobuhiro Tsuda, Amway's sales manager, said, "We are expanding our business by introducing good products to friends, not just selling products to friends. It's like when you find a good, cheap restaurant: you would want to tell your friends about it."

It was in May 1979 when Amway started its operations in Japan. Looking back at the start of the business, Takeshi Kure, executive vice president, said, "When I visited an employment agency looking for a new job, I was sent to a new company for an interview. The place for the interview was located in the Shinagawa warehouse district. I thought that this place was only used for interviewing. Later, however, I was told that this was the head office. With only 11 people to start the business, all of the employees became receptionists on the first day, May 7, waiting for the first mail delivery.

"Eleven orders were received on the first day. Since we now receive as many as 10,000 orders a day, such a day seems to belong to a totally different age. When we first started, cash was sent by mail. Everyone had to help do their own accounting, and everyone packed products and

cleaned the office before going home."

Amway managers were worried during the first month, since on some days they did not receive any orders, even if some mail was delivered. Since distribution took about a week, many people came to pick up their products from the beginning. "This gave us confidence to talk to them and to find out which products they liked," said Tsuda, explaining the business methods adopted at the start of the company's operations.

"Before starting business in Japan we wrote to distributors in 10 countries asking them to submit lists of their friends in Japan. This was Amway's method of finding people and expanding the number of our distributors, and we received enough names to make a list of 1,000 people."

Briefing session

The home areas of these people were marked on a map, and meeting schedules were prepared from Sapporo to Okinawa after studying how many meeting places were needed. "To these 1,000 people we sent invitations to come to a company briefing session, requesting them to participate since they were introduced by a friend," said Tsuda.

Nearly 20% of them eventually agreed to become distributors. Amway told them to first use its products themselves, and if they liked them to introduce them to their friends and relatives. It emphasized that a distributor should first like the products, rather than emphasizing the business side. The number of distributors grew to several thousands during the first year. These briefing sessions were organized by three people, including Tsuda, and they visited as many as 60 places in a single month.

Although many of the distributors were in the older age group, reflecting the age of their introducers, the proportion of younger people gradually increased, and the business began to thrive. Since it took time for them to attract Japanese custom-

ers they first focused on foreigners living in Japan, and held briefing sessions to recruit foreigners with working visas.

The manager of the marketing department, Jerry Rosenberg, classifies the development of Amway into four stages, each of which lasted two to three years. In the first stage Amway tried to make as many people as possible aware of the nature of its business. This was when the business centered around foreigners living in Japan. The products were limited to detergents, pots and pans and so on, which were easily understandable and explainable.

The second stage represented an expansion of the product range into the fields of nutrition, cosmetics and so on. This was a time when DDs were developed while centering on greater Tokyo. Japanese distributors played the major roles. This was also a period when Amway had to go through a process of adapting its operations to fit in with government regulations, having a very hard time to obtain permission from the Ministry of Health and Welfare to sell its nutrition products and cosmetics.

Tsuda said, "The ministry requested us to change the green color of the lid of a container for nutrition products, such as vitamins, since the pigment used was not permitted. They also put conditions on labels. We really had a hard time. The contents of the products were also regulated in great detail." Because of the restrictions on cosmetics, Amway contracted a Japanese company for consignment production.

During the third stage the number of DDs drastically increased. There was thus no longer a need for the company to teach each new recruit step by step. The business was being led by the DDs. Efforts were made to keep the balance of four categories of products.

Now it is in the fourth stage, and importance is being placed on giving guidance concerning its basic philosophy and regulations, while allowing each category of distributor a degree of freedom. Product-wise, products and packages are being improved, for example, by improving its best-selling liquid detergent, "Dish Drop." Also, in making efforts to promote



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niche products, Amway has developed an electromagnetic cooker in cooperation with Sharp Corp. as well as tumbler sets with Hoya Corp. in 1988.

One headache for Amway was a revision of the door-to-door sales law. Multi-level marketing systems and pyramid selling had become a problem in Japan, and Amway was regarded as a multilevel marketing operation. The national Consumer Center had actually received a lot of inquiries about Amway, but what makes Amway different from other multilevel marketing systems is that even if the number of its distributors is increased, distributors cannot increase their bonus unless they actually sell more products.

Door-to-door sales law

Another point is that once the pyramid is constructed, unlike other multilevel marketing systems, the top person is not guaranteed a large income if he does not do anything; if the person fails to make an effort, their income is reduced and they are demoted.

Over the years Amway has cooperated positively in helping to revise the door-to-door sales law, and it is now generally recognized that the Amway system does not give rise to any of the problems covered by the law.

One of the major problems in a door-to-door sales system concerns returned products. According to the door-to-door sales law, traders must comply with any consumer request to return a product within eight days of purchase, a so-called cooling-off period. Amway, in contrast, basically takes back products at any time, even more than eight days from the time of purchase.

Amway's public relations manager, Junko Iwaki, said, "We also give full refunds to consumers who do not like detergent or nutrition products after using them, if there is any left over. Regarding DDs, his or her ¥8,000 starter kit must be returned when leaving. We pay back the amount of the original investment."

Amway keeps in contact with the Consumer Center. It also distributes a publication called Amway News every month to consumer centers in various parts of Japan, explaining its operations and seeking new business. This approach started at the beginning of 1988. At the same time Amway requested consumer centers to call its head office toll-free if they received any complaints or inquiries. Amway also directly responds to customers' questions, having consumer relations sections at its offices in Tokyo, Osaka, Fukuoka and Nagoya.

Amway has achieved dramatic growth in Japan during the past 10 years. However, after recording a growth rate of 86% in 1987 and 22% in 1988, its performance flattened in 1989.

Hemmer said, "Since we have been undergoing extraordinary growth up to the present, we would now like to stabilize our growth. In order to stabilize the foundations, we have been making further progress by employing personnel at the divisional manager levels for finance and public relations since June 1989. In order to increase our sale we would like to cultivate new product fields, such as foods, from February of next year after reviewing our product lineup".

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