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mary kay china: people and love

Jean Lee, Liman Zhao, and Yunting Lu wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On September 9, 2015, Mary Kay (China) Cosmetics Co., Ltd. (Mary Kay China), one of China’s leading direct selling enterprises in skincare products and cosmetics, held its fifth annual convention with its national independent sales force in Hangzhou, the capital city of Zhejiang Province. Seeing so many women awarded on the stage, Paul Mak, president of Mary Kay’s Greater China Region, smiled with satisfaction. He knew deep down that the mission of Mary Kay China was precisely to provide those women with opportunities to pursue a better career. In the past 20 years, Mary Kay China had fostered more than 400,000 active independent beauty consultants and established 35 branches in different provinces, and now the company had over 1,200 employees.

However, in Mak’s eyes, these achievements were far less exciting than helping others change their lives and careers. He said, “At Mary Kay, ‘P&L’ means more than ‘profit and loss’—we also mean ‘people and love.’” As a wholly owned subsidiary of Mary Kay Cosmetics, Inc. (Mary Kay Inc.), Mary Kay China had always stuck to the parent company’s global mission of “enriching women’s lives.” Mary Kay China had been celebrated with many awards, including being recognized as an “Excellent Employer: Best Companies to Work for in Greater China,” one of “100 Best Human Resource Model Companies in China 2014,” and one of “100 Most Attractive Employers in China 2015.”

Mak believed that the survival and development of Mary Kay China relied on its corporate culture, which involved trust among employees and close connections between beauty consultants. Yet when he considered the future, Mak worried about Mary Kay China’s corporate culture. In addition to wondering whether to expand the company, Mak was not sure that the network of beauty consultants would be strong enough to succeed in the Internet era.[[1]](#footnote-1) Furthermore, cosmetics were only one kind of product for female consumers, who had a consistent need for various beauty-related products. How could Mary Kay China diversify its product line and provide female consumers with quality products that would help them feel beautiful?

CREATION AND DEVELOPMENT OF MARY KAY INC.

With a desire to enrich women’s lives and help women succeed in a male-dominated business world, Mary Kay Ash founded Mary Kay Inc. on September 13, 1963, in a 500-square-foot storefront in Dallas, Texas. Over the next 52 years, the company grew to become a leading cosmetics brand and direct-selling company, with over 3.5 million independent beauty consultants around the world. Mary Kay products were sold in more than 35 markets worldwide by the end of 2015, and its wholesale worldwide annual sales exceeded US$4 billion.[[2]](#footnote-2)

“You can do it!” was the core motto of Mary Kay Inc., whose mission was to enrich women’s lives. In the development process, the company stuck to four guiding philosophies: (1) do unto others as we would have others do unto us (the Golden Rule); (2) life’s priorities should be kept in their proper order, which meant putting faith first, family second, and career third; (3) recognize the accomplishments of others—both corporate staff members and independent consultants should act as if each person they met was wearing a sign that read, “Make me feel important”; (4) be generous in helping others (the “Go-Give”® spirit).

Anyone could become an independent beauty consultant by paying Mary Kay Inc. US$100 to purchase a starter kit, so that the beauty consultant could market the products immediately to her friends and family. Unlike the employees at Mary Kay China, Mary Kay Inc. beauty consultants were their own bosses, and had a chance to earn 50 per cent profit in retail sales. There was a clear path for their careers, from consultants to national sales directors (the titles in between included star consultants, directors, sales directors, senior directors, and executive senior directors).

In 1976, Mary Kay Inc. was listed on the New York Stock Exchange. However, some stakeholders began to focus more on making money than on helping women change their lives, which clashed with the original intent of the company. Thus, Mary Kay Inc. returned to private, family ownership in a leveraged buyout. Mary Kay Inc. had never changed its mission and guiding principles. Thanks to her brilliance and determination, Ash received numerous prestigious awards during her lifetime and many more following her death, becoming known as one of the greatest female entrepreneurs in the United States.

On December 23, 1971, Mary Kay Inc. expanded into overseas markets by opening its first international subsidiary in Australia. While expanding its business globally, Mary Kay Inc. positively influenced every subsidiary with the corporate culture, and never stopped contributing to charitable/public causes wherever it operated; one notable project was the “Pink Changing Lives” concept, which set out to change the lives of women and children around the world.

SELLING THE CULTURE OF BEAUTY IN CHINA

Mary Kay Inc. established its first factory in China in September 1995, under the leadership of Paul Mak. In February 1998, Mak succeeded K. K. Chua as the president of Mary Kay China. However, in the following month, the company encountered its most difficult period, when China’s direct selling industry shifted from pyramid selling[[3]](#footnote-3) to direct selling. Although competition in the industry was fierce and the government policy was full of uncertainties, Mak never deviated from the corporate culture of Mary Kay Inc. By firmly following the promises made by Ash to her customers, her employees, and society, Mary Kay China successfully overcame its difficulties and gained a significant market share in the cosmetics direct-selling industry in China.

Cosmetics Direct-Selling Industry in China

In general, China’s direct-selling industry developed in three important stages. The first stage was pre-direct selling, from the end of the 1980s to April 20, 1998. In 1997, the State Administration for Industry and Commerce announced that direct selling (传销)[[4]](#footnote-4) was legal. The second stage was from April 21, 1998 to September 1, 2005. On April 21, 1998, the Chinese government decided to prohibit all direct selling activities because direct selling was considered an inappropriate form of marketing in China. On June 18, 1998, the government announced that all foreign-owned enterprises had to shift to a “stores plus salespersons” model in China, and approved 10 foreign-owned enterprises (including Avon and Mary Kay) to make such a transformation to run their businesses in China.[[5]](#footnote-5) The third direct selling (直销) stage started after September 1, 2005, when the government launched new regulations for the direct-selling industry. On March 2, 2006, the government granted Avon the first licence permitting direct selling in China. By the end of 2013, 41 companies were granted such a licence.[[6]](#footnote-6)

In subsequent years, the direct-selling industry grew rapidly. According to Chinese magazine *Knowledge Economy*, as of January 2015, 49 companies had received a direct selling licence issued by the Ministry of Commerce.[[7]](#footnote-7) Among those, 46 companies had already run direct-selling businesses; their sales revenues totalled ¥159.92 billion,[[8]](#footnote-8) with a growth rate of 24.3 per cent.[[9]](#footnote-9) Among the 3,393 types of products sold by direct-selling companies, there were 2,770 types of cosmetics products. The sales revenues of cosmetics and healthcare products were ¥11.68 billion and ¥9.58 billion, accounting for 46.71 per cent and 38.33 per cent respectively of the total revenue generated by all products in the direct-selling industry. On the list of the top direct-selling companies, six companies’ revenues had reached over ¥10 billion; Mary Kay China was one of them (see Exhibit 1).[[10]](#footnote-10)

When the top cosmetics brands in China were ranked in 2014, the top 10 brands combined held 30.9 per cent of the market share, down 2.3 per cent from 2013 (see Exhibit 2). The sales revenue from cosmetics products sold on e-commerce platforms reached ¥62.67 billion, accounting for 15.5 per cent of the whole market, a significant increase from 0.7 per cent in 2010. It was predicted that the e-commerce platform would contribute 25 per cent to the cosmetics industry.[[11]](#footnote-11)

The percentage of cosmetics firms using the direct selling model in China had increased from 10.4 per cent in 2010 to 13.5 per cent in 2014.[[12]](#footnote-12) In general, direct selling cosmetics brands expanded their product lines by launching health and personal care products (see Exhibit 3). Avon, as the first company granted a government licence for direct selling, had switched its business model from the direct selling model to Avon’s retail store model, and had failed to localize in China’s market. As a result, the company operated at a loss for three years.[[13]](#footnote-13)

Keep Promises, Dare to Change

The turmoil in direct selling greatly harmed Mary Kay China. Given the interest of all employees and beauty consultants, Mary Kay China decided to keep the business active and not lay off any employees or cut the workforce of beauty consultants. However, not everyone in the company agreed with the plan; for example, the manager who took charge of the operations department commented, “Why should we do this with no income, while continuously investing money?” His concern was a result of Mary Kay China’s need to pay its employees, operating costs, and all other costs during that period. Nonetheless, strongly supported by its U.S. headquarters in Dallas, Mary Kay China did not shift from direct selling to consumer retail. Mak explained, “It’s because we . . . promised our independent beauty consultants that we would never sell our products to end consumers directly.” He said, “This was the core of our culture. We exist to help others succeed, rather than achieve [our] own success.”

In 1998, Mary Kay China was allowed to adopt a special business model to run its operations in China. This model complied with the law at that time, trying to help beauty consultants improve their performance. Specifically, Mary Kay China established branches and independent stores in different regions across China. On the one hand, the branches hired salespeople to sell products to end customers. On the other hand, in order to provide a better environment for sales activities, Mary Kay China developed national beauty directors across China, and encouraged them to open independent stores, which were operated by beauty consultants. The national beauty directors were trained and promoted from their roles as beauty consultants. After Avon received a direct selling licence in March 2006, Mary Kay China and Amway China also secured the same licence on December 1, 2006.

Mak believed that Mary Kay China’s adherence to the direct selling principle was supported by the company’s corporate culture. He explained, “In fact, during the national ban on direct selling in 1998, we made a decision to exit the Chinese market if the policy required us to undertake retailing in China.”

After the crisis, Mary Kay China went through a series of adjustments—simplification, centralization, and professionalization. Those adjustments had a remarkable influence on the whole organizational structure and changed the working style of all employees. For example, around 2001, all orders, payments, and shipments were handled by the Retail Beauty Centre; after 2003, all these processes were done online and customers could pick up their products at third-party stores. Another change involved disbanding the distribution centres and customer service centres owned by Mary Kay China; those services were outsourced to take advantage of professional resources. In addition, Mary Kay China cooperated with China Merchants Bank and other payment institutions to improve the efficiency of the payment process for customers.

These adjustments decreased the operational costs of the whole company but they also had a huge impact on employees, with many being laid off. Mak recalled, “We spent nine to 12 months communicating with our employees, making [it clear] that we had to do this for our survival.” In order to facilitate the changes, the company provided various opportunities to the employees (e.g., English language lessons, professional and technological training, and recommending employees for job interviews with companies in partnerships with Mary Kay China).

In order to practise lean management as well as lean production, Mary Kay China laid off almost all of the employees in certain positions in its branches. However, all employees thought that the adjustments and layoffs were understandable. At the 50th anniversary of Mary Kay Inc., Mary Kay China (which was 18 years old at the time) became the biggest of all of Mary Kay Inc.’s non-U.S. markets. In the meantime, Mary Kay China performed better and better in the Chinese market, and ranked at the top of the industry (see Exhibits 1 and 2).

Localization of Mary Kay Inc.’s Corporate Culture in China

Centred on the global mission of enriching women’s lives, Mary Kay China aimed to meet eight specific needs of Chinese women by providing them with beauty products and careers at Mary Kay China: (1) beauty and confidence, (2) harmonious family, (3) good interpersonal relationships, (4) learning and growth, (5) financial independence, (6) health and entertainment, (7) achievements and glory, and (8) inner peace. Meeting these needs reflected localization of Mary Kay Inc.’s corporate culture in China.

Mary Kay China treated talent as the core of its company development. Mak explained, “The beauty consultants and employees were part of our mission. Thus, one of our company’s goals was to help them realize themselves in multiple ways, which could promote the all-around development of Mary Kay China.” To Mary Kay China, beauty consultants were important to its expansion strategy as well as its sustainable development. In general, the consultants could accomplish much in various ways. They had the opportunity to attain a good career, through which their efforts would pay off. They also had the opportunity to learn and grow, and experience the corporate culture of Mary Kay Inc. Finally, the company provided the beauty consultants with resources and support to help them succeed.

The growth of all employees was also key to the company’s development. Mary Kay China invested about ¥120 million every year in training programs to help employees improve their character, skills, and appearance. Beginning in 2013, Mary Kay China gave a training course on *The 7 Habits of Highly Effective People*,[[14]](#footnote-14) which helped employees develop their company spirit and build good interpersonal relationships with one another.

In contrast to many companies that asked employees to prioritize their work, Mary Kay China advocated the priorities established by Ash: faith first, family second, and career third. K. K. Chua, Asia-Pacific president of Mary Kay Inc., explained that “love is the starting point of all considerations. We believe that when your family supports your career, you will have a strong sense of job security, [and] thus, a successful career.” Jason Zhang, director of sales events and administration, who had been working for Mary Kay China for 18 years, shared his opinion on the corporate culture: “To be honest, when the [recruiter] called me to join Mary Kay China, we didn’t talk much about the salary. Instead, I was deeply touched when he introduced one of its guiding philosophies.”

Sabrina Chen, senior manager of brand development, who had worked at Mary Kay China for four years, shared her experience of her first day with the company: “When I walked out of the elevator, the director of human resources was waiting for me there with a bunch of flowers in his hand. I knew I would be a member of a wonderful family. He explained each term of the documents and took me to my supervisor. Then the director of my department showed me around the company and introduced its corporate culture to me. It was a totally different but wonderful job orientation.”

In order to motivate employees to recognize their own value, Mary Kay China praised its employees on both a material and spiritual level. Wendy Yuan, vice-president of the human resources department at Mary Kay China, described what that meant: “In order to help our employees reach a good balance between work and life, our company holds a lot of meaningful events and activities for them. It is our corporate culture that drives the employees to work with the highest efficiency.”

Mary Kay China also took its culture into consideration when granting awards (see Exhibit 4). For example, in order to avoid vicious competition between beauty consultants or directors, Mary Kay China motivated them to follow the “Go-Give” rule and help each other succeed, and granted a “Go-Give” award according to their performance in this respect.

Yuan stated, “While the turnover rate of the industry is about 18 per cent, Mary Kay China has kept its turnover rate below 9 per cent, owing to its mission and corporate culture.” Among those who left Mary Kay China, some pursued a more comprehensive path of personal development, some wanted to change the working environment, some were poached by other companies, and some did not acculturate to an environment populated with female employees and beauty consultants. “My first job [was] at Mary Kay China, which was an ideal step in my career path. My boss treated me so well, and offered me opportunities to do job rotation. However, after my second year at Mary Kay China, I was eager to change my job and learn other industries,” said one legal division employee who had left Mary Kay China in 2013.

Penetrating Third- and Fourth-Tier Cities through the Pink Bus Program

Mary Kay China’s business in third- and fourth-tier cities contributed far more to its growth than its business in first- and second-tier cities. Thus, to Mary Kay China, it was very important to penetrate and sustainably develop business in these third- and fourth-tier cities.

After the global financial crisis in 2008, in order to restore balance to the national economy, the Chinese government increased its investment in infrastructure construction. However, Mary Kay China observed that the needs of the third- and fourth-tier cities failed to attract enough attention, and thus decided to rapidly expand into such remote areas. In 2011, the Pink Bus Program was launched in order to introduce Mary Kay products directly and quickly to customers in third- and fourth-tier cities.[[15]](#footnote-15) The company painted large buses pink (the iconic color of Mary Kay Inc.), and removed all the seats in the bus to reconstruct them as beauty salons. In general, beauty consultants parked a pink bus in the middle of commercial plazas. Customers could register directly on the scene, and then attend beauty classes and receive services on the pink bus. A pink bus would stay in one city for two days and then move on to other cities. Mary Kay China would choose different beauty consultants to do brand advertisements in different themes to suit different seasons.

In 2013, to celebrate Mary Kay Inc.’s 50th anniversary, the company launched a “Beauty on the Go” program in China. Mary Kay China picked 50 cities among the 167 third- and fourth-tier cities in 14 provinces, and provided face-to-face beauty services to female customers in those cities. In 2014, Mary Kay China marked a milestone: the annual sales revenue of the Chinese market exceeded that of the American market, making China Mary Kay Inc.’s biggest market in the world.

Mak was full of confidence in the future of Mary Kay China. He insisted that the company should continuously strengthen its market power in third- and fourth-tier cities. He commented, “Nowadays, about 70 per cent of our business is from the third- and fourth-tier cities, which has helped us become the number one brand in the cosmetics industry. It was a very important strategy that we entered such markets much earlier. We need to pay attention to the fourth-and-fifth-tier cities in the future.”

Stronger Networks in the Internet Era

By the end of 2015, the number of beauty consultants and preferred customers of Mary Kay China had reached 1.5 million, and over 40,000 of these beauty consultants were active. In addition, the number of chief beauty directors had reached about 100. Over the previous 20 years, the company had nurtured strong connections between consultants and directors.

In some respects, Mary Kay China considered the Internet to be a platform or tool that helped build connections among people, keeping its consultants and directors closely aligned and helping to serve customers better. In Mak’s eyes, the Internet was a network of individuals, and if not, the Internet would not be of any help to Mary Kay China. One of Mary Kay China’s competitive resources was the strong network between people, which, in the Internet era, drove the company’s development and success. However, Mak understood that in the future, it was critical to strengthen the connections to retain (as well as attract) talent.

Though connectivity was a core component of the Internet era, Mak thought that in some ways, such connectivity was not strong enough. He explained: “The Internet is built based on the interests of different people, so that it will be weak and easy to break. As a tool, the Internet has many shortcomings; for example, fake products and no thoughtful services. To some extent, the Internet pulls people far away from each other, rather than keeping them more closely together.” Mak believed that the types of connections that Mary Kay China had traditionally fostered (without the Internet) were much stronger than connections built through the Internet. He explained further, “Our connection, as an interpersonal relationship, is full of love and trust.”

Thanks to the strong connections between staff and customers, beauty consultants provided multiple customer-oriented services, including pre-sales experiences, after-sales support, and other marketing services. Based on this emotion-driven marketing strategy, a number of customers became repeat customers. In the Internet era, a strategy driven by a strong connection between people would undoubtedly attract numerous loyal customers. Within the company, people were also connected and, with the company’s guiding philosophies, positively influenced each other. In addition, Mary Kay China built 3,300 workshops in order to guarantee the quality of service provided by the independent sales representatives, and to strengthen the connections among them as well. In 2015, Mary Kay China started putting more focus on the innovative activities and collaborations between different departments.

P&L: People and Love

Mak explained that the two objectives “profit and loss” and “people and love” were not in conflict with each other; instead, the culture based on people and love would increase profits in the long run. Even though a majority of Chinese companies were pursuing economic efficiency, Mak believed that the people and love concept would survive. He explained,

When it comes to acculturation, it may be true that there is a tendency toward utilitarianism. However, I believe there is consistency when we are talking about people’s values and culture, no matter Western or Eastern. For example, the Golden Rule of ‘Do unto others as we would have others do unto us,’ and an old Chinese saying, ‘Never do unto others what you don’t want done to yourself (已所不欲, 勿施于人),’ present the same thing in different ways.

This people-oriented management principle was firmly embodied in Mary Kay China’s corporate culture, and manifested in its responsibility to the society and environment. Early in 2001, the year that Mary Kay China began to generate profit, the company founded the “Mary Kay Fund” to enable women to start new ventures. When the Sichuan earthquake occurred in May 2008, the fund donated ¥3 million through the Red Cross. In addition to philanthropy, the company sustained environmental protection activities. For example, in collaboration with the Chinese Women’s Development Foundation, the company launched the “Mary Kay Environmental Protection” program to plant trees in poverty-stricken areas of Western China.

Mak explained that Mary Kay China did not do social good for public relations or corporate social responsibility reasons, but because it was an important part of its corporate culture. As evidence of this approach, in May 2014, Mary Kay China, together with Shanghai Soong Ching Ling Foundation, founded the “Mary Kay Thanksgiving Fund.” Mak stated, “Our intention is to involve all Mary Kay people in the cause to create value for our society. By doing so, we could succeed with our corporate culture.”

CREATING A BETTER TOMOTTOW

Since its foundation in 1995, Mary Kay China had sold its culture of beauty in China, built strong connections between people, and penetrated third- and fourth-tier cities. By the end of 2012, the company’s sales revenue had increased 64 times since 1998.[[16]](#footnote-16) In 2013, its sales growth rate reached 22 per cent;[[17]](#footnote-17) in 2014, sales revenue exceeded ¥10 billion, with a growth rate of about 30 per cent.[[18]](#footnote-18) A long-range view showed that Mary Kay China experienced four periods of rapid growth, with each period followed by a two- or three-year adjustment phase (see Exhibit 5). Anson An, deputy director of the training and development programs, who had worked for Mary Kay China for 15 years, explained that quick growth was becoming a problem because employees did not have enough time to learn and adapt to the culture. In order to continue to pursue rapid growth, the company needed to make some adjustments in the near future—changes that might risk cultural discontinuity, among other challenges, for Mary Kay China.

Embracing the Internet

The Internet had an increasing impact on the traditional direct selling model. The direct-selling industry was trying to merge with the Internet and reach customers more quickly. The business-to-customer-to-customer model applied by small stores on the WeChat platform was similar to the direct selling model. Small stores on WeChat connected manufacturers with customers directly, creating a network in which manufacturers, wholesalers, retailers, agents, and customers were closely connected with one another. Information could be spread rapidly and managed easily on the Internet (including social media), thus achieving higher efficiency.[[19]](#footnote-19) Considering the advantages of the Internet, top management at Mary Kay China realized that it might be more profitable to sell products using an Internet platform.

However, the customer experience would be degraded when merging direct selling with the Internet. Mary Kay China had some beauty consultants sell discounted products online and generate a considerable number of orders, which violated the original intention of Mary Kay Inc. After a thorough discussion, the management team reached a consensus, which was to continue with the original intent of the company and the promise to “never skip the beauty consultants and sell products to end consumers directly.” It was still the primary objective of Mary Kay China to help beauty consultants succeed and provide services and supports when they sold products to end consumers.

Nevertheless, Mary Kay China had started preparing for online sales. For example, it planned to provide beauty consultants with technological support to help them set up small stores on WeChat. Therefore, the biggest challenge for Mary Kay China was not embracing the use of the Internet, but building strong relationships between people. It was not the primary goal to achieve rapid growth with increasing profits; instead, what the company hoped to pursue was an enhancement of the existing relationships between people. Mak commented:

Lack of trust between our employees and beauty consultants will have a huge impact on our company. If we only pursue profit maximization without thinking about our culture, we will be no different from many other companies. I believe it is our culture and strong connection built among people that drives our development toward a promising future. If the power of our culture hasn’t been reinforced, things will go wrong, and no strategy can make up for our losses.

Furthermore, the Internet was becoming more and more popular in third- and fourth-tier cities, and even some small towns. How should Mary Kay China take advantage of the Internet in these circumstances? Could the expansion strategy be implemented more rapidly and effectively with the existing consultant–director connections or with the Internet?

Diversifying Products

“We would like to do everything associated with beauty,” said Mak. Thus, early in 2008, Mary Kay China released a new slogan, “Beauty has multiple meanings,” which conveyed that cosmetics were not only products, but also something that could strengthen women’s confidence and beauty. Mak explained that, “Cosmetics, as a bridge, connected us with women and the beauty of women. The connection we built among people could cover anything associated with ‘beauty.’”

Yet there had been various obstacles when implementing the diversification strategy. In 2008, in collaboration with a research and development institution, Mary Kay China tried to launch healthcare products. The samples passed several tests, and were ready for launch in the market. Although the headquarters in Dallas was initially supportive, it became worried that this new technology and new business would grow beyond the company’s control. Accordingly, after several discussions and comparisons, the project was ultimately cancelled.

In 2015, Mary Kay China and its American headquarters reached a consensus to develop a type of health maintenance product; they planned to launch this product in the food and healthcare product industries in 2016. Many other projects were in progress to expand business in China, including the Mary Kay Asia-Pacific Production Centre (Second Phase), a production distribution centre and cosmetics manufacturing plant, and a research and development building.[[20]](#footnote-20)

Through its mission and the direct selling model, Mary Kay China had built a good reputation and provided hundreds of thousands of women with successful careers. In order to meet the consistently changing needs of customers and beat the competition in the cosmetics industry, Mary Kay China was trying to strengthen its mission and vision and make the direct selling model more flexible. However, there were still challenges with respect to the process of localization.

In 2015, Mary Kay China celebrated its 20th anniversary, but also saw its first negative growth. Mak understood that this negative growth was caused by many factors, but he still believed that nothing would stop the firm from creating value for women’s lives. In his opinion, this was just the beginning for this 20-year-old company. How could it achieve unwavering success in the Internet era?

Exhibit 1: Ranking of Chinese Direct-Selling Companies by Sales Revenue

|  |  |  |  |
| --- | --- | --- | --- |
| **Rank** | **Company** | **2013 Revenue**  **(¥ billion)** | **2014 Revenue**  **(¥ billion)** |
| **1** | Amway (China) Co., Ltd. | 29.3 | 28.7 |
| **2** | Perfect (China) Co., Ltd. | 17.4 | 22.3 |
| **3** | Infinitus (China) Co., Ltd. | 12.0 | 16.5 |
| **4** | QuanJian Nature Medicine Technology Development Co., Ltd. | 5.0 | 13.5 |
| **5** | Nanjing Joymain Technology Development Co., Ltd. | 6.5 | 12.5 |
| **6** | Mary Kay (China) Cosmetics, Co., Ltd. | 7.7 | 10.0 |
| **7** | Tiens Group Co., Ltd. | 6.8 | 7.3 |
| **8** | New Era Health Industry (Group) Co., Ltd. | 4.2 | 5.8 |
| **9** | Herbalife (China) Co., Ltd. | 3.8 | 5.5 |
| **10** | Nu Skin Enterprise (China) | 6.4 | 4.4 |

Source: “2014 Ranking of Chinese Direct Selling Companies by Sales Revenue,” 199it, March 29, 2015, accessed December 16, 2015, www.199it.com/archives/336639.html [Chinese].

Exhibit 2: Ranking of Cosmetics Firms in China by Market Share (2012–2014)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Rank** | **Brand** | **Company** | **Market Share (%)** | | |
| **2012** | **2013** | **2014** |
| **1** | Mary Kay | Mary Kay (China) Cosmetics Co., Ltd. | 5.8 | 5.7 | 5.9 |
| **2** | L’Oréal | L’Oréal (China) Co., Ltd. | 6.5 | 6.2 | 5.9 |
| **3** | Olay | Procter & Gamble (Guangzhou) Co., Ltd. | 6.4 | 5.7 | 4.9 |
| **4** | Artistry | Amway (China) Co., Ltd. | 4.8 | 3.3 | 2.6 |
| **5** | Pechoin | Shanghai Pechoin Daily Chemical Co., Ltd. | 0.8 | 1.5 | 2.4 |
| **6** | Inoherb | Shanghai Inoherb Cosmetics Co., Ltd. | 2.0 | 2.3 | 2.0 |
| **7** | Lancôme | L’Oréal (China) Co., Ltd. | 1.6 | 2.0 | 1.9 |
| **8** | Estée Lauder | Estée Lauder (Shanghai) Trading Co., Ltd. | 2.8 | 2.4 | 1.8 |
| **9** | Perfect | Perfect (China) Co., Ltd. | 1.8 | 2.0 | 1.8 |
| **10** | Aupres | Shiseido (China) Co., Ltd. | 2.6 | 2.1 | 1.7 |

Source: “Research on China’s Consumption Index,” CTR Market Research, accessed December 16, 2015, www.ctrchina.cn/en. The research applied the probability-proportional-to-size sampling approach; the samples were from 40,000 families in 373 cities across China.

Exhibit 3: Cosmetics Direct Selling Brands and Main Product Series of Companies in China (2014)

|  |  |  |
| --- | --- | --- |
| **Brand** | **Company** | **Main Product Series** |
| **Amway** | Amway (China) Co., Ltd. | Nutrition and Healthcare Food, Household Care, Cosmetics, Personal Care |
| **For You** | For You Healthcare Co., Ltd. | Personal Hygiene and Cleaning Supplies, Health Equipment and Health Care, Cosmetics and Personal Care, Healthcare Food |
| **Infinitus** | Infinitus (China) Co., Ltd. | Health Food, Skin Care, Health Care, Household Care |
| **Longrich** | Jiangsu Longrich Group | Healthcare, Cosmetics, Daily Care |
| **Mary Kay** | Mary Kay (China) Cosmetics Co., Ltd. | Skin Care, Cosmetics, Body Care, Sunscreen Products, Male Care |
| **Nu Skin** | Nu Skin Enterprise (China) | Anti-Aging Care, Skin Care, Personal Care, Health Care |
| **Perfect** | Perfect (China) Co., Ltd. | Healthcare Food, Small Kitchen Wares, Cleaning Supplies, Personal Care, Cosmetics |
| **Tiens** | Tiens Group Co., Ltd. | Nutrition and Healthcare Food, Health Care, Cosmetics, Household Care |

Note: The brands above are listed in alphabetical order.

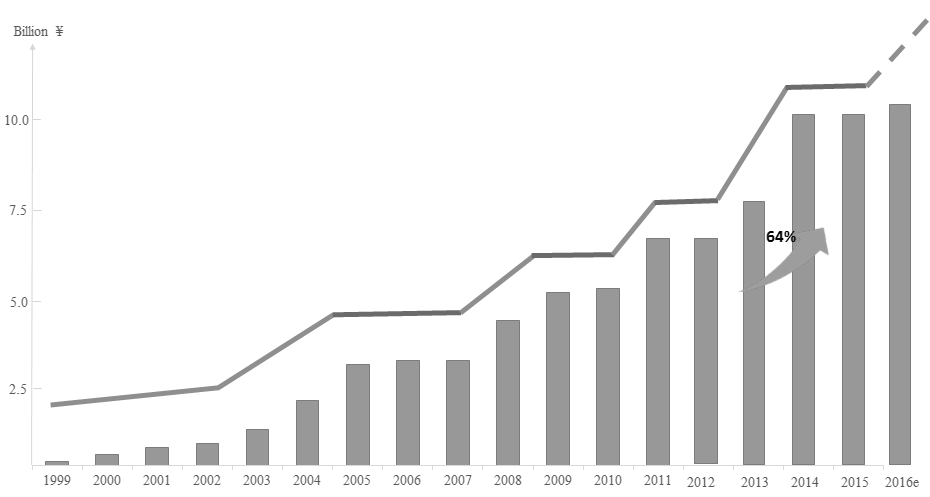
Source: Created by the authors using information from the companies’ official websites.

Exhibit 4: Talent Incentive Mechanism, Mary Kay China

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| In order to motivate employees to find their own value, Mary Kay China praised the independent beauty consultants and directors on both a material and spiritual level. As the most important incentive mechanism, praise was the basis of all marketing plans of Mary Kay Inc. During any occasion, Mary Kay China would offer a variety of incentives and symbols to praise strong sales performance, which was a reflection of its corporate values.  **Praise at the Material Level**  *Praise by pink cars*: As the highest-level award, pink cars were granted to beauty consultants when they achieved outstanding performance. Mary Kay China handed out more than 4,000 pink cars of different brands, depending on beauty consultants’ levels of performance. Starting in 2016, Mary Kay China awarded the top salesperson with a Mercedes-Benz A180. Those awards strengthened the beauty consultants’ sense of pride and acted as a public advertisement for Mary Kay.  *Praise by luxury tour*: The beauty consultants who achieved the best performance could have a luxury tour abroad with their family. The winners of the annual contests were invited to join the Dallas Trip and visit Mary Kay Inc. At the 20th anniversary, Mary Kay China invited hundreds of couples to join a shipboard ceremony to enhance relationships between couples.  **Praise at the Spiritual Level**  *Praise at the seminars*: Mary Kay China held four to five seminars per year, and invited those employees who had worked at Mary Kay China for more than five years to walk the stage in front of their peers, and gave different awards (such as the Thanksgiving Award, Golden Rule Service Award, Leadership Star Award, and Go-Give Award) to the employees and beauty consultants. At the weekly seminar for each region, the best beauty consultant of that region would share her experience with others and win thunderous applause in response to her performance, which was also praise at the spiritual level.  *Praise by granting pins*: As the most classic awards, pins were granted to signify the independent sales force’s outstanding performance. At different stages of their career path, the independent sales representatives would be granted pins that connoted the level of sales they had achieved. Every beauty consultant was proud of wearing various pins at Mary Kay China.  *Praise on the stage*: Mary Kay China held awards ceremonies, on a large stage, to honour those beauty consultants of all levels who met sales objectives, earned promotions, or accomplished other goals. At the ceremonies, Mary Kay China recognized and praised the beauty consultants like superstars.  *Praise in* Applause *magazine*: Mary Kay China’s company magazine, *Applause*, had the same volume of distribution as many other national magazines. The primary purpose of this magazine was to praise outstanding beauty consultants. It listed the excellent beauty consultants, all competitive events, and the winners of the contests each month. It also introduced the performance and skills of the top-ranking beauty consultants and their experiences. This monthly magazine allowed all beauty consultants to share successful experiences with one another while being praised publicly. |

Source: Company documents.

Exhibit 5: Sales Revenue of Mary Kay China (1999–2016e)



Note: E = estimated; Sales revenue increased 64% from 2012 to 2015; ¥ = Chinese yuan (CNY); ¥1 = US$0.16 on September 9, 2016.

Source: Company documents.

1. The “Internet era” referred to an era when Internet technologies (e.g., social media and e-commerce) were widely used. [↑](#footnote-ref-1)
2. ¥ = CNY = Chinese yuan; All currency amounts are in CN¥ otherwise specified; ¥1 = US$0.16 on September 9, 2016. [↑](#footnote-ref-2)
3. Pyramid selling, also called multi-level marketing, was made illegal in mainland China from 1998 to 2005. [↑](#footnote-ref-3)
4. In Chinese, direct selling could be translated into “传销 (pyramid selling)” or “直销”. Before September 2005, pyramid selling referred to both single-level and multi-level direct selling, as both were legal. Yet after this point, pyramid-selling activities were banned by law. [↑](#footnote-ref-4)
5. “10 Big Events in China’s Direct-Selling Industry: Important Events for Direct Sellers to Know,” Zhixiaoren, August 26, 2014, accessed November 22, 2015, http://news.zhixiaoren.com/2014/0826/1/40028.html [Chinese]. [↑](#footnote-ref-5)
6. Xiaohui Zhang and Rui Liu, “Legislation for 10 Years: Renaissance of China’s Direct Selling,” *Knowledge Economy* 11 (2015): 60–74 [Chinese]. [↑](#footnote-ref-6)
7. Ibid. [↑](#footnote-ref-7)
8. ¥ = CNY = Chinese yuan. [↑](#footnote-ref-8)
9. “2014 Ranking of Chinese Direct-Selling Companies by Sales Revenue,” 199it, March 29, 2015, accessed December 16, 2015, www.199it.com/archives/336639.html [Chinese]. [↑](#footnote-ref-9)
10. “Report on the Development of the Direct-Selling Industry 2014,” Department of Market Supervision, Ministry of Commerce of the People’s Republic of China, July 20, 2015, accessed November 20, 2015, http://sczxs.mofcom.gov.cn/article/ca/wb/201507/20150701051028.shtml [Chinese]. [↑](#footnote-ref-10)
11. “China’s Cosmetics Industry 2015: Analysis of the Status Quo and Development Trends,” Chinese Industrial Information Network, October 14, 2015, accessed November 29, 2015, www.chyxx.com/industry/201510/349208.html?t=1445327944487 [Chinese]. [↑](#footnote-ref-11)
12. Ibid. [↑](#footnote-ref-12)
13. The sales revenue for each year from 2011 to 2014 was ¥1 billion, 0.7 billion, 0.6 billion, and 0.35 billion, respectively. (Dan Xiao, “Deficits for Three Years Running: Avon was Expected to be Delisted,” Beijing Daily, November 24, 2015, accessed November 29, 2015, http://bjrb.bjd.com.cn/html/2015-11/24/content\_330271.htm [Chinese].) [↑](#footnote-ref-13)
14. Stephen R. Covey, *The 7 Habits of Highly Effective People* (New York, NY: Simon and Schuster, 1989). [↑](#footnote-ref-14)
15. “Mary Kay’s Pink Bus: Bring Beauty Home,” Sohu, March 23, 2014, accessed November 22, 2015, http://roll.sohu.com/20140323/n397049727.shtml [Chinese]. [↑](#footnote-ref-15)
16. “Mary Kay’s Pink Bus: Bring Beauty Home,” Sohu, March 23, 2014, accessed November 22, 2015, http://roll.sohu.com/20140323/n397049727.shtml [Chinese]. [↑](#footnote-ref-16)
17. “Mary Kay (China): 2013 Sales Revenue Reached CNY 7.7 Billion, with a Growth Rate of 22%,” Zhixiaowang, February 12, 2014, accessed November 20, 2015, www.zhixiaowang.com/htm/2014/02/55378.html [Chinese]. [↑](#footnote-ref-17)
18. “2014 Ranking of Chinese Direct-Selling Companies by Sales Revenue,” 199it, March 29, 2015, accessed December 16, 2015, www.199it.com/archives/336639.html [Chinese]. [↑](#footnote-ref-18)
19. “China’s Cosmetics Industry 2015: Analysis of the Status Quo and Development Trends,” Chinese Industrial Information Network, October 14, 2015, accessed November 29, 2015, www.chyxx.com/industry/201510/349208.html?t=1445327944487 [Chinese]. [↑](#footnote-ref-19)
20. “Mary Kay’s Pink Bus: Bring Beauty Home,” Sohu, March 23, 2014, accessed November 22, 2015, http://roll.sohu.com/20140323/n397049727.shtml [Chinese]. [↑](#footnote-ref-20)