

# Chapter 1

## Capitalism and Controversy

**A**mway's gateway to the world begins in an unlikely place—a small Midwestern township called Ada, Michigan, 12 miles east of Grand Rapids. Founded as a French-Canadian trading post and home to a historic covered bridge over the Thornapple River, Ada is best known these days for the sprawling world headquarters of Altacor Inc., parent company of Amway. The complex of office buildings and manufacturing plants stretches for more than a mile. Its busy visitors center has become a local tourist attraction with its giant see-through metal globe in front and 50 flagpoles flying the flags of affiliates' home countries. In the spring, the garden around the globe is planted in tulips, a nod to Jay and Rich's Dutch heritage. The business partners are immortalized in life-size bronze statues that stand in the headquarters lobby.

## Selling Directly to Buyers

The company that Jay and Rich created casts a goliath's shadow over the direct-selling industry, but Amway wasn't the first company to sell directly to buyers. Others, such as Fuller Brush, Stanley Home Products, Avon Products, and Tupperware, preceded it. But Amway took the multilevel marketing (MLM) concept and ran with it around the world. It not only laid the foundation for other MLMs, but also helped spark some of the business trends taken for granted today—working from home, shopping from home, globalization, and shifting the activities of selling and distribution away from brick-and-mortar structures and traditional systems. The Direct Selling Association (DSA), the industry's major trade organization, says that a record 16.1 million Americans worked as direct sales representatives as of 2009. That was up by 1 million people from 2008's sales force. People are "looking to earn extra money on their own terms and at their own pace," says Neil Offen, the DSA's president and chief executive officer.<sup>1</sup>

Business icon Donald Trump, British airline tycoon Richard Branson, and billionaire Warren Buffett have limited involvement in MLMs and direct selling as well. The Trump Network in 2009 began selling nutritional supplements, healthy snack foods, and skin care products. The marketing materials make the network sound a lot like, well, Amway:

It's an opportunity. An opportunity for you. And an opportunity to help rebuild a country founded on that very premise. It's a chance to turn a land overwhelmed by stress and ill health to one of strong bodies, bright minds, and free spirits. A chance for you to promote wellness and entrepreneurialism. Even more, a better way of life. This is far more than a financial opportunity. This is a chance to live and promote something you can believe in.<sup>2</sup>

Branson's Virgin Group in 2009 sold its Virgin Vie at Home skin care and makeup division to its management team. And in 2003 Buffett's company, Berkshire Hathaway, purchased The Pampered Chef, a direct seller of kitchen gadgets and cookware.

Amway, though, stands out from the pack of direct sellers for its distinctive culture and ideology. What sets Amway apart isn't that

it sells products in a nontraditional—and often controversial—way. It's that it sells its sellers, who are called independent business owners (IBOs), on the dream that the company's founders and executives spoke of in Las Vegas. And not just any dream, but the "American dream"—the idea that if you are motivated and work hard enough, you deserve success and it will come your way. Call it bootstrap capitalism with a blend of "soap and hope," a marriage of manufacturing and motivation. "Rich DeVos and Jay Van Andel didn't set out to sell products," says Pat Williams, senior vice president of the Orlando Magic national basketball team, which Rich owns. "They sell *confidence*. They fire up people to believe in themselves, and those people sell the product."<sup>3</sup> The founders espoused the quintessentially American ideal of hard work, perseverance, taking risks, and overcoming obstacles at a time in the late 1950s when the fear of Communism and socialism was spreading. Indeed, the very name *Amway* is a compressed version of "American way." Its direct selling wrapped up in a flag, along with spiritualism and family. Former distributor Stephen Butterfield, who is now deceased, put it this way:

Here is obviously a new power in American life: a corporation with immense popular appeal, a grass-roots following among all classes and trades, an explosion of political and religious energy such as has not been released since the growth of industrial unions in the 1930s. What makes this power all the more remarkable is that corporations have never been very dear to the hearts and minds of the American people.<sup>4</sup>

One of the reasons for Amway's power is that it embraced social networks long before anyone heard of the Internet, Facebook, or Twitter. "We probably were one of the original social networks, before there was technology associated with it," Steve Van Andel says.<sup>5</sup> Its primary social network was and still is the one-on-one connection, at first person to person and later tied to the Internet.

## Exporting a Sales Model

The Amway way isn't just the American way anymore, however. It's spreading into a global phenomenon under its rallying cry of economic

“freedom.” As Kaoru Nakajima, one of Amway’s major distributors in Japan, puts it: “I was a salaried man working in a company for eight years. Now I am my own boss. Now I am free.”<sup>6</sup> Peter Muller-Meerkatz, who with his wife, Eva, amassed one of Amway’s largest distributor networks in Europe, adds: “We believe in capitalism. We are convinced that democracy and free enterprise are the world’s only economic hope. Why wouldn’t we want to share it?”<sup>7</sup>

Amway certainly did share it, exporting its direct sales model—“the Plan,” as Amway IBOs call it—to much of the world. The company operates in 80 countries and territories and the breakdown of its domestic and international business has flipped. At the end of the 1980s and the beginning of the 1990s, 70 percent of Amway’s business was in the United States. By 2009, however, 90 percent of its sales came from outside the United States.<sup>8</sup> Two-thirds of its business is in Asia.<sup>9</sup> Its single largest market is China, which accounts for more than a third of its more than \$9 billion in annual sales.<sup>10</sup> The company’s success there is due in part to tapping a vast market of more than a billion people who are breaking away from old feudal systems and are part of a culture that encourages family members to support a relative’s business venture. Amway says it’s committed to help budding entrepreneurs in the world’s most populous country. “We want to be successful in China and we are here in China to stay for the long term,” says Eva Cheng, executive vice president responsible for Amway markets in Greater China and Southeast Asia. “We are not just here for a few years to make some quick bucks and then go away.”<sup>11</sup> Indeed, the company has been adept at gaining access to markets—including China’s—where governments at first resisted its entry. Chinese law limits direct selling, so Amway had to break with its traditional way of doing business and set up government-mandated storefronts. They proved so successful that Amway may open additional retail outlets in other countries. (It still has no plans to sell its products in the United States through stores, however.) Another Eastern country, India, represents a huge market as well. “Our business is based on people and how many people there are,” Steve Van Andel explained. “Well, there’s a lot of people in India and there’s a lot of people in China. . . . We’re available to most of the world’s population, so now we’ve got to take a look at the markets we’re in and to try to figure out how to get better market share.”<sup>12</sup> There are still parts of the world

without Amway, but that could change. “We’re not everywhere yet, you know—the Middle East, Northern Africa, sub-Saharan Africa,” Doug says. “It’s just a matter of time, I think. Those things are going to happen.”<sup>13</sup>

Alticor, Amway’s parent company, overcame weak economic trends in recent years to report record 2010 sales of \$9.2 billion thanks to strong growth in China, India, Korea, North America, and Latin America.<sup>14</sup> An estimated 12,000 people a day sign up to become Amway IBOs around the world. The company employs more than 14,000 worldwide—4,500 of them in the United States—and 300 scientists, who hold about 700 patents. More than 3 million IBOs are active in 80 countries and territories. Moreover, Amway operates factories in Michigan, California, China, and Vietnam. Access Business Group, a wholly owned Alticor subsidiary, oversees packaging design, makes bottles and labels, and contracts to manufacture products under a third-party—and confidential—arrangement for some very large consumer brands. Beyond manufacturing, Alticor owns several downtown Grand Rapids hotels through the Amway Hotel Corporation: the luxury Amway Grand Plaza Hotel, the JW Marriott Hotel, and Courtyard by Marriott. The company’s *Enterprise II* yacht is a floating conference center for those in the Diamond Club, and a resort on Peter Island in the Virgin Islands awards sales leaders with luxury, vacation-style meetings.

Once known mainly as a direct seller of soap and detergent, health and beauty now account for most of Amway’s sales. Amway’s Nutrilite product ranks as the world’s best-selling brand of dietary supplement,<sup>15</sup> and Artistry, Amway’s facial skin care and cosmetics brand, ranks as one of the top five worldwide beauty brands with \$1 billion in global sales.<sup>16</sup> Major markets are China, Japan, the United States, South Korea, Russia, Thailand, Taiwan, India, Malaysia, and Ukraine. Private and very closely held by the DeVos and Van Andel families, Amway doesn’t disclose profit figures. But, in terms of sales, if Amway were a public company, it would rank in the Fortune 500—No. 253, to be exact, in 2010—elevating it on par between Starbucks (No. 241 with \$9.77 billion in revenues) and eBay (No. 267, with \$8.7 billion in revenues).<sup>17</sup> Among private companies, in 2010 Amway was ranked second on Forbes’s annual list.<sup>18</sup> Along the way, Amway’s founding families have grown very

wealthy. As of early 2010, Rich DeVos had an estimated net worth of \$4.5 billion, ranking him at No. 176 on *Forbes*'s list of the world's billionaires.<sup>19</sup> Money has brought Amway and its leaders political clout, influence, and access to those in power. Amway's founders have been major contributors to the Republican Party and conservative causes. Rich's son, Dick, who was co-CEO with Steve Van Andel from 1993 to 2005, resigned from the company to pursue his own business and political interests, and in 2006 made an unsuccessful run for Michigan governor in the state's most expensive gubernatorial campaign in its history. The founding families cultivated close relationships with former presidents Ronald Reagan, Gerald Ford, and the Bushes, especially George H. W. Bush. Former Amway distributors—including former House Whip Tom DeLay, who in January 2010 was sentenced to three years in prison for money laundering—have been elected to Congress. In addition to political contributions, the DeVos and Van Andel families and Amway also have used their wealth for philanthropic projects, from building a children's hospital in their hometown to paying for cleft palate surgery in Thailand to helping educate children in rural provinces of China.

### A Fuller Picture

That's all quite a transformation from the once little soap company born in a Grand Rapids suburb, leading Richard L. Leshner, former president of the U.S. Chamber of Commerce, to call Amway "one of America's most spectacular business success stories."<sup>20</sup> Conceived of in the shell of an abandoned gas station with \$500 in cash, Amway's plan sounded simple enough: recruit people to sell products such as soap and cosmetics and sell others on the Amway system. Then they, in turn, would be recruited to sell the products, and so on and so on. To become an Amway IBO, one had to be sponsored into Amway by another IBO, who then received a cut of the new level of the business. And if others could be recruited, then the next distributor got a cut of *their* business. And so the MLM pyramid-shaped feeding chain of commissions built into multiple levels as distributors "upline" could make money on the layers of salespeople below them, or "downline." Other names frequently used to describe

the business model are “network marketing” and “direct marketing.” Whatever the terminology, Amway has been remarkably successful with its approach of building a network of salespeople through building and taking advantage of relationships. In his book *Believe!*, Rich DeVos noted that person-to-person selling has gotten a “bad rap” but is a time-honored profession:

We happen to think that personal service beats making the customer stand in line. . . . I respect the man who is in a business where the customers need not beat their way through traffic, park way out in a crowded parking lot and run through the rain or snow to get their goods.<sup>21</sup>

While Rich paints a folksy picture of direct selling, others view the company and its business model in a much darker light. Litigators, competitors, and disgruntled former distributors who morphed into Amway whistle-blowers have accused the company of operating a pyramid scheme that sells people on unrealistic dreams that, in reality, are built on a system where those at the top earn the pharaoh’s wealth while those at the bottom struggle to get ahead and often fail.

Numerous Internet sites are devoted to exposing Amway as a “scam.” Critical bloggers repeatedly refer to the company as “Scamway” (a Google search on “scamway and Amway” turned up 13,000 results). There’s even an “Amway Wiki” ([www.amwaywiki.com](http://www.amwaywiki.com)) site, a collaborative repository of information, both positive and negative, about Amway; its parent company, Alticor; and Quixtar, the name Amway adopted for its North America operations in 2000 before deciding to go back to the Amway name. Early in 2010, when Robert Pagliarini, author of *Your Other 8 Hours*, posted a positive blog, “Why You Should Join Amway,” on CBS MoneyWatch.com, the discussion thread that followed set a record for the blog with 582 comments by people either praising or condemning the MLM. CBS Interactive stepped in, though, when the comments turned into a classic Internet flame war. Stephen Howard-Sarin, vice president of business and finance brands for CBS Interactive, posted the last response, No. 583, in the discussion thread: “Thank you, now stop.”<sup>22</sup>

Despite the razzle-dazzle recruiting rallies and glamorous get-togethers that spotlight Amway’s top success stories, few people make

dramatic profits working as Amway distributors. Amway's brochure, "A Business Opportunity for Entrepreneurs," boasts that since 1959 it has paid out more than \$33 billion in bonuses and incentives worldwide and that in 2010 more than 309,000 North American IBOs received a bonus check. But check the fine print. In the footnotes to the accompanying table of annual compensation, the company discloses that "approximately 0.18% of IBOs in North America achieved at least Gold Status" (\$12,303 a year) and "approximately 0.26% of IBOs in North America achieved at least Founders Platinum status" (\$40,125 a year). Moreover, the average monthly gross income for "active" IBOs was \$115 (approximately 66 percent of all IBOs of record were found to be "active").<sup>23</sup>

Jay Van Andel often remarked that anyone who thought he or she would get rich quick with Amway was mistaken. "If you are looking for a magic bullet—a surefire gimmick that will make you a millionaire overnight—you're looking in the wrong place," the cofounder wrote in his memoir, *An Enterprising Life*.<sup>24</sup> Rich said pretty much the same thing. "I have never tried to make it sound easy," he wrote in his memoir *Hope from My Heart*. "It isn't easy. It wasn't easy for us. When people came to us with the expectation of quick prosperity, I told them to look elsewhere."<sup>25</sup> But try telling that to the throngs of recruits who pack auditoriums and stadiums and watch a parade of wealthy Diamonds and Crown Ambassadors onstage. They are people like Butterfield, a former English professor-turned-Amway-distributor, whose 1985 book, *Amway: The Cult of Free Enterprise*, was the first of a string of exposés. "I liked the idea of making money, lots of it, without having to show up for work . . ." Butterfield said. "I wanted to be plucking the fruit from the money tree, not sitting on the outside of the circle chewing pits while others feasted."<sup>26</sup>

## Multiple Transformations

To its supporters and believers, Amway remains a symbol of free enterprise—an "empire of freedom," as one best-selling book put it<sup>27</sup>—and the resilient spirit of entrepreneurship under attack by big government. As one top distributor, Ron Puryear, says about walking

away from his previous job and following his dream: “I chose freedom.”<sup>28</sup> At the heart of Amway’s success is helping people to feel good about themselves, he adds:

We are a stand-on-your-feet-and-cheer-each-other’s-victories people. And our cheering isn’t phony or contrived. We know how hard each of us works. We know what it takes to stay motivated, to go out night after night when it’s easier to stay home and watch television. We know what those first hard years cost in time, energy, and commitment.<sup>29</sup>

Leonard Kim, who is a marathon runner and with his wife, Kim, formed a leading global sales organization in South Korea, says that some people mistakenly think the Amway business will “give you a fortune right away. However, in reality, the business is a like a long marathon.”<sup>30</sup> The key to productivity and making money, Jay and Rich believed, was to motivate people like Puryear and Kim, who didn’t want to work for someone else in a big company, and to show them the way to self-sufficiency. Amway set up a highly decentralized organization and eschewed top-level bureaucracy to encourage people down the chain of command to work harder because they were working for themselves. “The A. L. Williams Company (a whole life insurer) and other members of the direct selling industry, such as Amway Corporation, Tupperware, and Mary Kay Cosmetics, have stopped trying to fine-tune bureaucracy in the search for productivity,” University of California at Davis management and sociology professor Nicole Woolsey Biggart says in the first full-scale study of the industry, *Charismatic Capitalism: Direct Selling Organizations in America*. “Instead, they have adopted a form of organization that dates from this nation’s colonial past and have shaped it to fit the circumstances and aspirations of contemporary Americans.”<sup>31</sup> Avon Products Inc., founded in 1886, remains the world’s leading direct seller, with \$10.4 billion in revenues and more than 6 million distributors.<sup>32</sup> (Amway made an unsuccessful bid to acquire Avon in 1989 for \$2 billion.) Unlike Amway, it relies on single-level and multilevel compensation plans.<sup>33</sup> Ranked third behind Avon and Alticor is Germany’s Vorwerk & Co. KG, which includes JAFRA Cosmetics. It’s followed by Mary Kay Inc., Herbalife Ltd.,

Primerica Financial Services Inc., Tupperware Brands Corp., Natura Cosmetics SA of Brazil, and Oriflame Kosmetiek B.V. of Sweden. Other top 100 direct-sellers are in Japan, Peru, and Mexico.<sup>34</sup> The most common sales categories overlap with Amway's: beauty products, nutritional aids, cookware, and replenishable household products.<sup>35</sup>

While worker ants in Corporate America may have lost faith in working for someone else, belief in Amway's system at one time was shaken, too. Growth stalled in the 1980s in America as some "black hat" distributors cast the company in a bad light with their cultlike recruitment tactics and exaggerated promises of wealth. Those practices left many Amway distributors in the hole while top-of-the-food-chain distributors grew very rich. Amway's critics say the real money has been made by those who built their own pyramid-shaped sales organizations based on pushing non-Amway tools or "peripherals," including motivational books, CDs, suits, jewels, and tickets to motivational rallies. According to critics, by letting some mega-distributors and so-called "Amway motivational organizations" grow unchecked for years, Amway allowed renegades to tarnish the company's image. As part of its transformation, top Amway executives said they are "reasserting" their roles to oversee distributor behavior and establish "boundaries" for conduct. "The biggest issue is when people don't feel they're being told the truth," Steve Van Andel says. "Somebody's misleading them, or at least not telling them everything there is. And that's the cause of a lot of issues."<sup>36</sup>

People who tend to get lumped by the media into the category of Amway "critics" haven't stopped raising questions, even though Amway has taken some of them to court. Ironically, for a company that shies away from media coverage except when it's to its advantage, Amway has been embroiled in controversy and lawsuits for decades. It's been sued by its own distributors, competitors, foreign governments, and the U.S. government. That's true of many large international businesses, of course, but few companies have been accused and investigated of operating a pyramid scheme—an accusation it has fought in the courts and so far defeated time and time again. In the best-known and most significant challenge, the U.S. Federal Trade Commission (FTC) in 1975 charged that the company was, indeed, running an illegal pyramid scheme. But because the core of Amway's business is based on the sale

of products, not just direct payments to join, and because of other procedures Amway had in place, the FTC in 1979 ruled the operation to be a legal enterprise.<sup>37</sup> The order not only gave Amway the green light to continue business, it also had the effect of legitimizing the MLM model and creating a whole new business genre based on the “Amway rules” laid down by the FTC (this is discussed in detail in Chapter 6, “Toppling the Pyramid”). Other businesses adopted those rules, and MLMs proliferated in the United States and around the globe.

Despite the federal government’s pronouncement that Amway’s sales model was legal, lawsuits against the company continue under state statutes related to pyramid schemes. Rival Procter & Gamble also accused Amway of running an illegal pyramid operation, contending that it primarily sells products to its distributors rather than making retail sales to consumers. Some of Amway’s former IBOs have made similar charges in lawsuits. Amway’s business model also has come under scrutiny in Canada, the United Kingdom, India, and other countries for a variety of alleged practices, from price-fixing to avoiding paying customs duties to playing hardball with vocal critics. And in 2007, former distributors for Quixtar—the name Amway was using for its North American operations at the time—filed a class-action lawsuit also alleging the company and some of its top-level distributors operated a pyramid scheme. In November 2010 a settlement was announced under which Amway agreed to pay \$34 million in cash and \$22 million in products to the distributors. The settlement also included amending the complaint to remove the term *pyramid scheme* from the case.<sup>38</sup>

## Influences on Public Perception

Still, public perception can be slow to fade. When I told people I was working on a book about Amway, their typical responses were, “Isn’t that a pyramid scheme?” and “Don’t they sell soap?” Amway management grew more press-shy over the years, not feeling it got a fair shake in the media and dodging persistent accusations that it ran an illegal pyramid scheme despite the FTC ruling. “There was a very adversarial feeling between ourselves and the media early on, during the first publicity crises,” Jay wrote in his memoir. “Rich and I were incensed

at first, then frustrated by the power newspapers and television had over the American public. The newspapers and television had the ability to define us for the public—to present a false image of what we were all about at Amway.”<sup>39</sup> Jay went on to say that mainstream media had a “bias” against Amway because it and other network marketing firms rarely advertised in those outlets.

In 2007 the company began a two-year global transformation and rebranding—or “retro-branding,” as Steve and Doug call it—to return to the Amway name.<sup>40</sup> Its parent company, Alticor, created a single, global brand—Amway Global—and invested more than \$200 million to boost compensation to IBOs and an advertising campaign to bolster its reputation. The company now is called just “Amway,” but it’s a new Amway, company executives insist. “We are reintroducing a \$1 billion start-up company,” says Steve Lieberman, vice president and managing director of Amway’s U.S. and Canadian businesses. “The company is switching from being distributor focused, where distributors are the only ones carrying our messaging to the public. We’re becoming distributor and consumer focused. So we’re taking our message directly to consumers.”<sup>41</sup> It’s doing so by airing “The Power of Positive” national television commercials to “reintroduce” shoppers and potential distributors to the company.

Amway also has been working its way into popular culture in a variety of ways. For example, Amway Global sponsored the Tina Turner Live 2008 North American Tour as part of a stepped-up marketing strategy to raise awareness of Amway business opportunities and products in North America. It also sponsored the YMCA National Wellness Campaign, two professional soccer teams (the San Jose Earthquakes and the LA Sol), the U.S. Rock and Roll Marathon, and Skate Canada. The home of the NBA’s Orlando Magic has a new name, Amway Arena. Amway also has tried to jack up its credibility and once-low profile with celebrity endorsements. In spring 2010 Amway Global launched the first of a line of healthy snack products with musician and TV and radio personality John Tesh. Tesh’s wife, actress Connie Sellecca, athlete and model Gabby Reese, and world soccer star Marta also signed similar endorsement contracts. Amway regularly has been a sponsor at the Olympics and was among the companies sponsoring the U.S. Pavilion at the 2010 World Expo in Shanghai, which drew 73 million visitors, a record for an

international expo.<sup>42</sup> The company lined up Olympic champions such as Chinese hurdler Liu Xiang to be a spokesperson for its line of health supplements, Nutrilite. Amway also has partnered with one of the most enduring symbols of American wholesomeness, the Miss America organization, to sponsor scholarships. Teresa Scanlan, Miss America 2011, is acting as an ambassador for Amway's Artistry cosmetics line. There's even an Amway Global Visa credit card now with the blue and red logo. "We're beginning to register again with the general public," Lieberman says.<sup>43</sup> Consumers, though, still can't go online and buy directly from Amway. They still must buy through an IBO's online site.

It could take more than a national TV campaign and PR blitz, though, to turn around enduring perceptions about Amway's business and convince ever more people to sell its products and its form of marketing to the world. Ironically, the company's alleged distrust of the media and its secretive insider culture may have given its critics ammunition to attack it. Whether Steve Van Andel and Doug DeVos can create a new, more open Amway and continue to grow in the United States and abroad remains a large challenge for its future and survival as a network marketer that depends on selling its products—and itself—to the world.



Jay Van Andel and Rich DeVos were determined to hold onto their sense of hope for the future and security by working for themselves. They were aspiring entrepreneurs from an early age who chased their own dreams and cemented a mutually beneficial partnership and friendship that lasted a lifetime. Later, others would study and try to emulate the company with varying degrees of success. Yet Amway stands alone as a direct-selling and social phenomenon that, more than 50 years later, still draws people with its alluring message of financial independence and personal growth. Dreams, though, like soap bubbles, are fragile. Alongside the much-hyped Amway success stories, there are also others: the disappointments from when bubbles burst. That, too, is part of the American way.

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