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碩士論文

直銷產業競爭優勢與經營策略之研究—
以中國大陸安利為例

Research on Competitive Advantages and Business Strategies in the
Direct-selling Industry-Using "Amway (China)" as a Benchmarking
Study

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中華民國 101 年 7 月

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(China)" as a Benchmarking Study**

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Abstract

First, this research is going to introduce the development of Amway (China). Second, through Porter's five-force model to evaluate Amway's environmental threat and opportunity, Amway's opportunity is greater than threat because the total attractiveness of Chinese direct-selling industry is larger. Amway gained the first mover advantages, adopts differentiated strategies to eliminate threats, and makes good use of advantages opportunities as effective tactics. Third, according to the evaluation result of internal analysis framework, though Amway (China) faces fiercely competitive situation, it maintains lasting competitive advantages. Finally, through analysis of entire business strategies, Amway (China) must offer distributors complete supporting service, and implement and standardize the concept of experiencing Amway can stabilize its position by promoting competitive and entire competitive strategies.

Key words: Amway (China), Direct-selling industry, Business strategy, Competitive advantage, Five-force analysis

中文摘要

隨著中國政府政策之開放，且人民生活水平逐漸提高，直銷產業在中國市場正蓬勃發展，而安利(中國)在其中長期處於領頭羊之地位，因此藉由對安利個案之研究，可了解其營運及行銷策略，以提供同業參考。

本論文首先介紹安利在中國的發展歷程，藉由鑽石模型與五力分析得到安利擁有的機會遠大於威脅，再加上 SWOT 優劣勢分析，發現安利運用了藍海策略增加並保持自身之優勢且趨避了劣勢，因此得以持續保持領先的地位。

關鍵詞：安利(中國大陸)、直銷產業、經營策略、競爭優勢、五力分析



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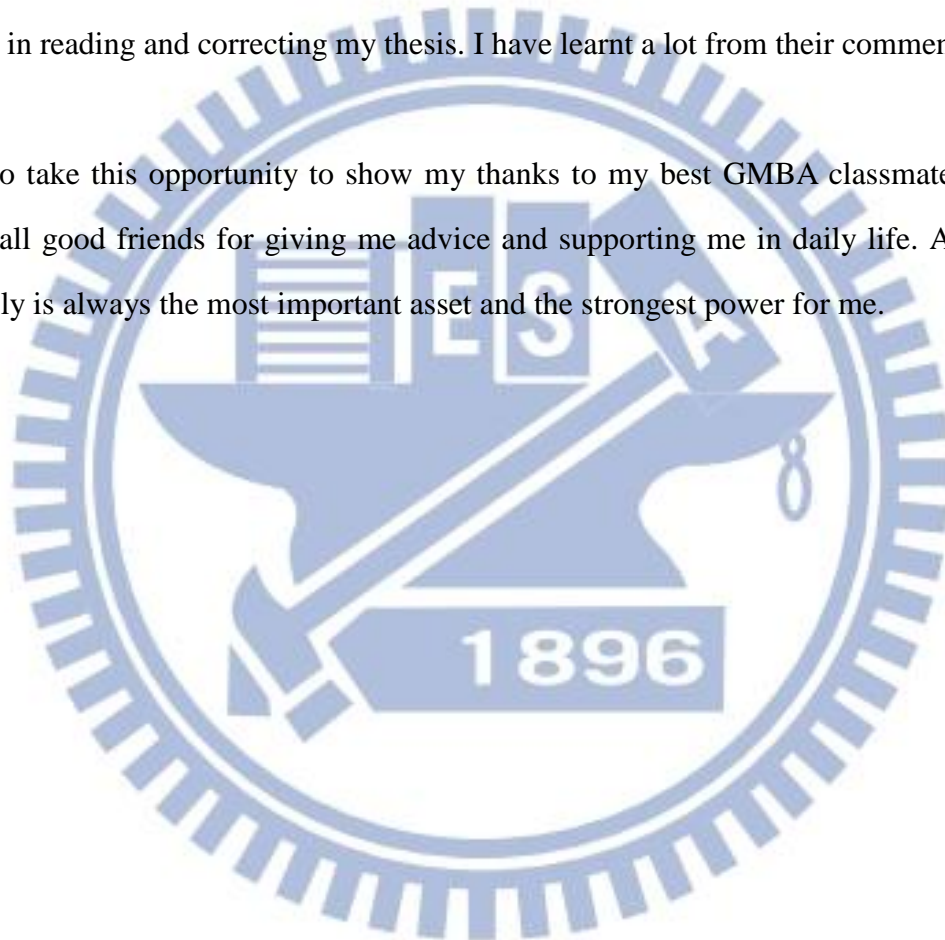


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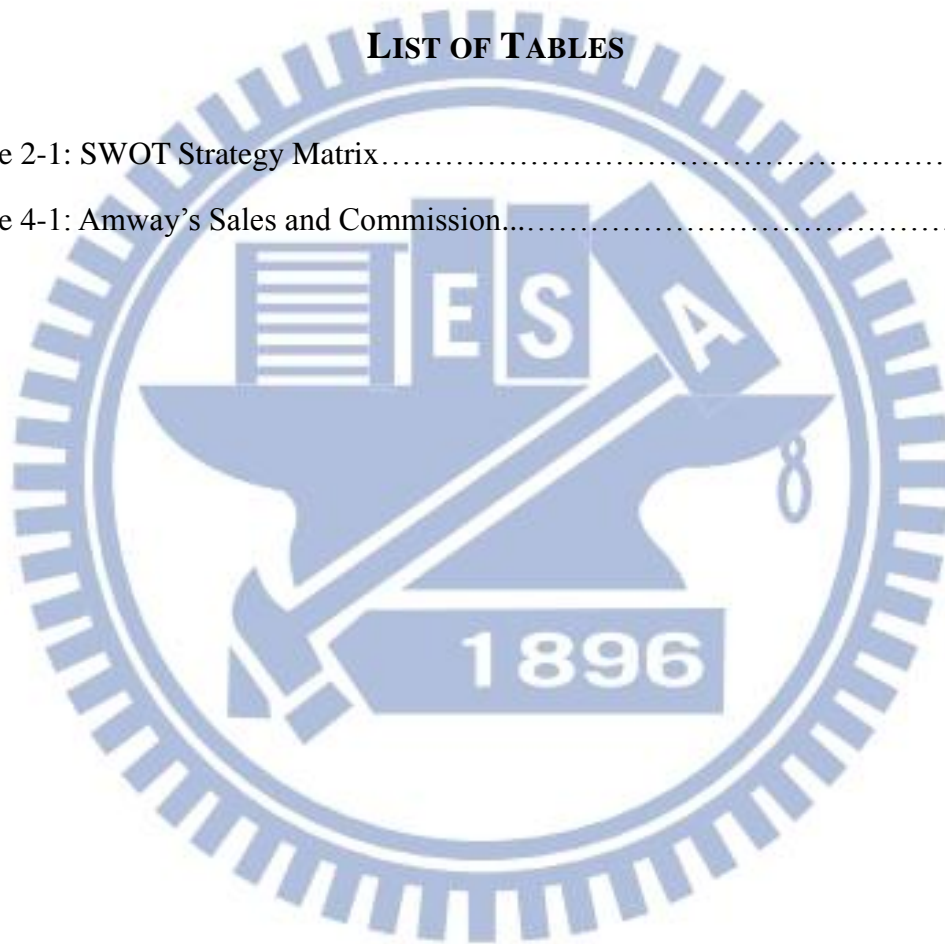
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I. INTRODUCTION

1.1 Research background and Motivation

The development of direct-selling industry in China has been rising, and there are many domestic companies growing up these years. Many health products and pharmacy companies have introduced direct-selling method but ended up failure. There are many different kind of problems happened to theses companies, most of which are from the companies themselves, such as weak basis of the companies.

One of the significant features of successful direct-selling companies in China is doing strategic deficit in the market. However, many domestic direct-selling companies, lacking of competence, often can not compete with the successful direct-selling companies and develop their markets in the long run. Thus, many unsuccessful domestic direct-selling companies in China are looking for short run profit and finally decide to leave the industry. It seems that the direct-selling model is not suited to Chinese companies, but current theories can not explain the results. If the new business model like direct-selling can not be accepted and promoted by the mainstream level of China, then it is fairly difficult to be applied in China.

After researching deeply the direct-selling model in China, we can conclude that the reasons which lead the companies introducing direct-selling models to failure are not building up their long term business brand assets with reasonable marketing strategies. Therefore, it makes Chinese customers can not agree with the direct-selling industry and then block the development of the companies bringing in the direct-selling models.

In the competitive direct-selling industry in China, few companies like Amway can successfully survive.

Since Amway China launched in GETDD (Guangzhou Economic and Technology Development District) on April, 1994, Amway continued changing strategies flexibly and making innovation accompanying with Chinese national status, trying to integrate into Chinese culture and become an excellent localize business. According to the statistics announced by Amway China, the sales revenue of 2010 rose by 9% and broke its record. Amway's sales revenue in China of 2010 achieved

22 billion in RMB. Moreover, Amway is promoting its marketing and sales experiences in China to the world and establishing retail stores around the world. Amway's sales revenue has increased due to its unique marketing model, multi-level direct-selling model. This model means when the direct-selling company promotes its business and products, it allow its sales representatives within different levels to sell their products to their customers. In this framework, independent contracted sales representatives always make great effort to build up their own organizations. As their organizations expand, the sales representatives can gain more profit through managing the increase of sales volumes of their organizations. 70% of Amway's business in China currently is taking this kind of multi-level direct-selling model.

Nowadays, the business model of multi-level direct-selling has been developed in more than 180 countries around the world. Under this model, the competition among brands is getting fierce, and degree of difference among products is becoming lower, and the function of products is also getting similar. In addition, the strategies based on this model have been intimated among different companies, so customers are easily confused or lost when choosing brands and products. The marketing strategy based on the multi-level direct-selling model is a substitute for attracting customers. To be more specific, this integration marketing strategy offers customers a new experience from their viewpoints. As far as we know, in the market with higher competition, the competitive advantages of a company are the resource it has and its ability to take good advantage of these resources to achieve its goals. The differences between two companies are often resources and abilities. A company can exist and development with the foundation of the ability of coordination and function integration under the multi-level direct-selling system. The unique marketing strategy, which is the significant factor of winning companies' important customers under the multi-level direct-selling system, contains many key respects, such as personal direct selling, internet marketing, media marketing, membership marketing, alliance marketing, and cooperation marketing and so forth **【Li (2007)】** . These operational strategies have helped Amway quickly built the product channel networks in China. These networks can offer different service to customers according to their different needs. This differentiate service strategy can motivate target customers take positive actions toward to specific products, for example, they may care more about products, purchase

products repeatedly, and proceed persuasive words of mouth marketing, and so on 【Aaker (1991) ; Keller (2008)】 . Therefore, from this perspective, a company can advance its competitive advantage remarkably, and enhance its product brand at the same time to realize a good volume, sales and profit goal 【Krasnikov & Jayachandran (2008) ; Nath, Nachiappan & Ramanathan (2010)】 .

Contrary to the traditional marketing model, Amway sales representatives spontaneously understand customers' needs, introduce appropriate products to them, bring products to their customers' home, and offer kind and convenient service. Selling products through direct-selling reduces the cost of product logistics. Companies can apply the capital to new technology research and improve product quality. In addition, the way of actively contact customers lowers the commercial atmosphere than the ways of others do; furthermore, it is beneficial to sell products and establish connection with customers. Meanwhile, companies can soon receive customers' feedback about products and then make improvement. Those are what Amway has done to attract large numbers of customers and in the meanwhile bring in abundant profit, and establish a good image of the company's brand.

The way of multi-level direct-selling helps Amway acquire its lasting competitive advantage; nevertheless, followed by the development of different operational strategies in the direct-selling industry and the market competition trend, the competitive environment and development trend in Chinese direct-selling industry would be getting complicated. Only the company who obtains the correct development strategy and catches the successful operational strategy within the industry can own the long-term competitive strategies. Therefore, in the current situation, the future development of the direct-selling industry and the analysis of the operational strategy become the main motivation of this research.

1.2 Research Goal

Direct-selling companies acquire lasting competitive advantages through the advantages of selling products and services and expanding organizations. In the meanwhile, they change the traditional strategies, namely, they have not regarded the store locations, media advertisements, pricing, and promotion as the cores and principles of retailing management anymore. Instead,

direct-selling companies have developed organizational networks centered on people, and replaced traditional marketing models with the Internet marketing relations. Thus, the direct-selling methods help companies gain more flexibility and more sensitivity to the market.

As the competitiveness increase in the market, competitive strategies among companies become various. Most companies not only take pricing competition but also make differentiation on many kinds of respects, including product positions, channels, package design, and promotional ways in order to share the market in the highly competitive market. At the same time, they use lots of promotional ways to maintain customers and look for potential customers. Therefore, we can predict that the future development of the direct-selling industry will get more complex and the competitiveness will be more radical. Multi-level direct-selling companies hold successful operational strategies in the industry, and can fulfill the different customers' needs, so they are able to obtain lasting competitive advantages to beat current competitors and restrict potential entrants from entering the market. Nevertheless, there are fairly few researches about operational strategies in the Chinese direct-selling industry until now.

This research is going to understand the current developing trend in the Chinese direct-selling industry, take Amway as the case company, analyzing its difference and competitive advantages and disadvantages. Additionally, through second-hand data and re-analyzing and re-assessment, this research is also going to determine successful operational strategies in the Chinese direct-selling industry.

This research would like to supplement current domestic related thesis through discussing present operational strategies of the Chinese direct-selling industry, and hopes the research result could be a reference for direct-selling companies to erect operational strategies or improve management ways in the future. Based on this, the main goals of this research are as follows:

Through the analysis of the case company, discuss the relation between the competitive advantages and the operational strategies in the Chinese direct-selling industry.

Raise concrete suggestions based on this research result to be a reference for potential and current companies to enter the direct-selling industry.

1.3 Research Flowchart

The research flowchart is shown as figure 1.1. First settle down the subject; motivated by literature review and experience of marketing strategies establishment, and make sure of research goal, scope, and target. Then, build the research framework through literature review, and through second-hand data, find the key to success and the practical operational strategies for future development of the multi-level direct-selling industry.

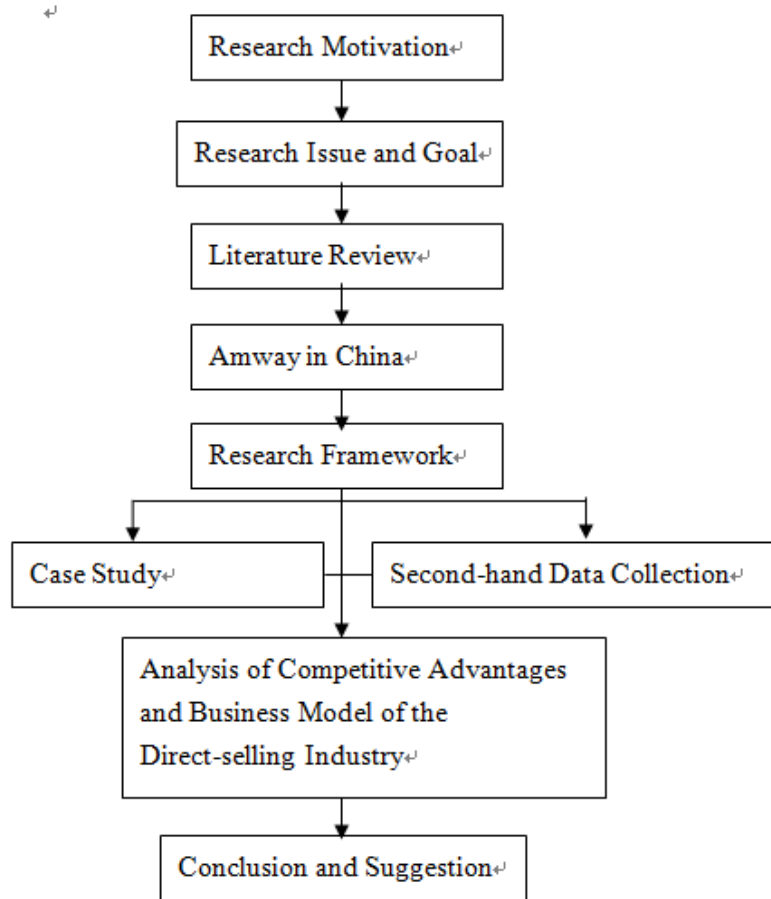


Figure 1-1 Research Flowchart

Resource: Organized by This Research

II. LITERATURE REVIEW

Section 1 of this chapter is going to explain the features of the direct-selling industry: Multi-level direct-selling industry and direct-selling industry companies, the relationship between distributors and direct-selling companies, the channel types of multi-level direct-selling industry and direct-selling companies. Section 2 is going to discuss key successful factors (KSF) and externalities. The last section is going to discuss literature relate to competition strategies.

2.1 Characteristics of Direct-selling Industry

2.1.1 Industry and Firms

According to traditional principle of marketing, previous marketing channels sold products to customers through retailers, and retailers sold products and service through other mediators. As the consumer purchasing behavior has changed, the way of “non-retail store selling” occurs. 【Sung (2006)】 thinks that “non-retail store selling” is divided into three types, including direct-selling, vending machine selling and mail-order. This method is a little different from the category of “non-retail store selling” raised by 【Kolter & Armstrong (2000)】 . 【Kolter & Armstrong (2000)】 separated “non-retail store selling” into four kinds, inclusive of mail-order, direct-marketing, vending machine selling and direct-selling. Direct-selling, which actually one of the “non-retail store selling”, has been a trend recently, is a way that sales representatives selling products to customers face to face.

Direct Selling Education Foundation define direct-selling as “Direct selling is the sale of a consumer product or service, person-to-person, away from a fixed retail location, marketed through independent sales representatives who are sometimes also referred to as consultants, distributors or other titles.” Therefore, there are two critical features of direct-selling, which are face-to-face selling and not in the stable retail stores.

One of the most common marketing ways in the direct-selling is multi-level direct-selling, which is one of the “marketing channels”, belonging to interview selling of non-retail store selling. Multi-level means that “The term "multi-level sales" as used in this Law means the promotion or

sales plan or organization pursuant to which the participants pay a certain consideration to obtain the right to promote or sell goods or services and the right to introduce other persons to participate in the plan or organization, thereby receiving a commission, bonus, or other economic benefit.” (Article 8, Fair Trade Act). Participants (Sales representatives) of multi-level direct-selling business have been increasing. The numbers of participants in Taiwan in 2008 are 5400 thousand (approximately 3800-4000 thousand participants excluding repeatedly count numbers), accounting for 18.54% of 22880 thousand total population. (Fair Trade Commission, Executive Yuan, R.O.C, 2009). It appears that multi-level direct-selling business has been fairly important in Taiwan. Because sales representatives have a significant role in multi-level direct-selling channels, the top priority of the company is to establish more closed ties with independent sales representatives.

The recent rapid development in the multi-level direct-selling industry makes the industry have the following special features:

1. Implement the “acquaintance” factor. Direct-selling activities normally run in the acquaintance group, and multi-level direct-selling includes more “acquaintance” factors. Because downsides in the multi-level direct-selling need to engage in the acquaintance group, that is to say, multi-level direct-selling takes advantages of original social relations, building business network in the social network. In economical aspect, most of times people use social network to consume, and multi-level direct-selling also takes advantage of social network to manage, even manage in scale. Multi-level direct-selling puts social network into institution.

2. Salespeople engage in selling or servicing, including “the sales of business opportunities”. During the “direct-selling” process, salespeople normally introduce two things to customers; one is the product or service; the other is the compensation plan for the business opportunity. Through selling products and offering service, and/ or attracting not only customers but also others as their downlines to engage in direct-selling business, salespeople can acquire reflective compensation. The downlines need to pay for the “business opportunity”. Downlines who purchase the business “opportunities” have similar rights to their uplines do. Therefore, business “opportunities” actually have become “objects” to be sold.

3. Multi-level direct-selling companies take multi-level compensation institution. There are two

common sources of “direct-selling” people’s income: one is through directly selling products or service to “end” customers; the other is through developing downlines (direct or indirect introduced new direct salespeople). Uplines will contribute their energy and knowledge to train their downlines, and sell products directly to “end” customers through their downlines, and then gain reflective compensation from their downlines’ revenue based on the compensation institution and rule of their companies. Generally speaking, the latter resource of income is from the income of the person you recommended, namely, if he or she does not have any sales revenue, you can not get the second part of revenue.

4. The legal relation between direct-selling companies and salespeople is “labor service agreement” instead of “employment agreement”. In other words, salespeople are not employees of companies but independent sales subject. This relation help direct-selling companies save huge amount of personnel expense.

5. Salespeople are sellers as well as consumers of products, and in some companies, more than 80% of products are bought by salespeople. Because the two contradict identities, salespeople may face embarrassing conditions.

The quality and feature of products are critical because they are the key factors which drive customers to purchase products. In addition to that, through making purchasers experience the products and service and then promoting to others, companies can achieve sales target. The products sold by direct-selling companies must satisfy customers’ needs, and match with the characteristics of direct-selling channels, so that can differentiate from traditional marketing channels 【Tseng (2007)】.

2.1.2 DISTRIBUTORS (SALES REPRESENTATIVES) AND FIRMS

Although there are no specific contracts between multi-level direct-selling companies and sales representatives, base on the article 12 of Supervisory Regulation Governing Multi-Level Sales under the Fair Trade Act, “A multi-level sales enterprise shall enter into a participation contract in writings with that who intends to take part in the sales organization or plan as a participant”. In other words, the relation between sales representatives and multi-level direct-selling companies is similar to sales agent relation and restricted by the above-mentioned regulation.

【Chang (2004)】 pointed out that “sales representatives” act as “customers” and “sellers” (suppliers) at the same time. That combines the both characters, traditionally contradicted, into one peacefully to resolve the conflict between consumers and suppliers. Direct-selling companies transform traditional marketing expense into retail revenue, commission and bonus as deserved feedback to encourage sales representatives to work hard promoting products to new customers.

【Chen & Li (2006)】 also said that sales representatives are resources of direct-selling companies and play a role as supporters for activities, organizational learning, development of business strategic vision, and production of enterprise synergy held by companies. How a direct-selling company regards its sales representatives will directly impact the relation and benefit of the company and sales representatives.

【Palmatier et al.(2007)】 ever raised an issue on customer’s loyalty either to a company’s brand or to a sales representative. The core value of direct-selling companies is sales representatives. Under the multi-level direct-selling surrounding, customer’s loyalty may be to sales representatives. If direct-selling companies enhance ties with sales representatives, the customer’s loyalty will increase in the meanwhile 【Yu & Li (2007)】. Most sales representatives have high satisfaction with their products, but direct-selling companies still need to provide them with many related service, such as training programs, motivate packages, order, pick-up and return, software and hardware equipment update and image enhancement, to show dedication of companies and achieve the key successful factors of making differentiation, increase sales representatives’ loyalty and continuously develop their volumes 【Lin (2001)】 .

Generally speaking, there are two types of sales representatives in the multi-level direct-selling industry: business sales representatives and consuming sales representatives (product lovers). Both types of them are business partners with companies in contract as well as the basic customers of companies. This kind of relation has become essential for companies to sustainably operate. Thus, if direct-selling companies want to run and expand in the long run, they have to own sales representatives with extremely high loyalty. How to maintain sales representatives’ loyalty, which impacts their attitude and behavior, becomes a critical issue to companies 【Lin (2001)】 .

From the above literature review, sales representatives are one of important marketing channels

of multi-level direct-selling companies, and the completed mechanism of abundant commission and bonus is the key to maintaining the relation between sales representatives and companies.

2.1.3 CHANNEL FORM OF DIRECT-SELLING INDUSTRY AND FIRMS

Direct Selling Education Foundation in 1992 defined direct-selling as “Direct selling is the sale of a consumer product or service, person-to-person, away from a fixed retail location, marketed through independent sales representatives who are sometimes also referred to as consultants, distributors or other titles.” 【Peterson &Wotruba (1996)】 from three perspectives to analyze activities of direct-selling companies. From Operational perspective, direct-selling can be seen as a selling way through interpersonal communication or individuals; from tactical perspective, direct-selling can be seen as a way or function of selling activities of organizations; from strategic perspective, direct-selling can be seen as a channel or distribution model, a method or media to acquire or get close to the market, or a way to do business.

Direct-selling is a marketing channel because it has the function of delivering product or service from manufacturer to end users. In the channel framework shown on the figure2-1, channel A and channel B are traditional retail channels with fixed place; channel C and channel D are common form of direct-selling channels. Direct-selling channels replace traditional agencies, wholesalers and retailers, with sales representatives, but the implementation of channel functions of direct-selling channels are similar to those of traditional channels.

Direct-selling is one of the marketing channels of multi-level direct-selling companies. The biggest difference between multi-level direct-selling channel and other types of channel without retail stores is its selling network promoted by “human power”. No matter how advanced technology is nowadays, and even if there are many selling ways through technological products such as the Internet, telephone, and television, the basic spirit of multi-level direct-selling is passing away a belief, system and products by “people”, and integration of the entire marketing channels as well 【Sung (2005)】 .

According to the explanation of modern economics, multi-level direct-selling is a operational type which transforms part of product revenue from agencies, distributors, advertisers to sales

representatives. The main difference between multi-level direct-selling and traditional sales is that the former substitutes sales representatives for wholesalers and retailers to concise selling process and lower product price, and motivate consumption 【Sung (2005)】 .

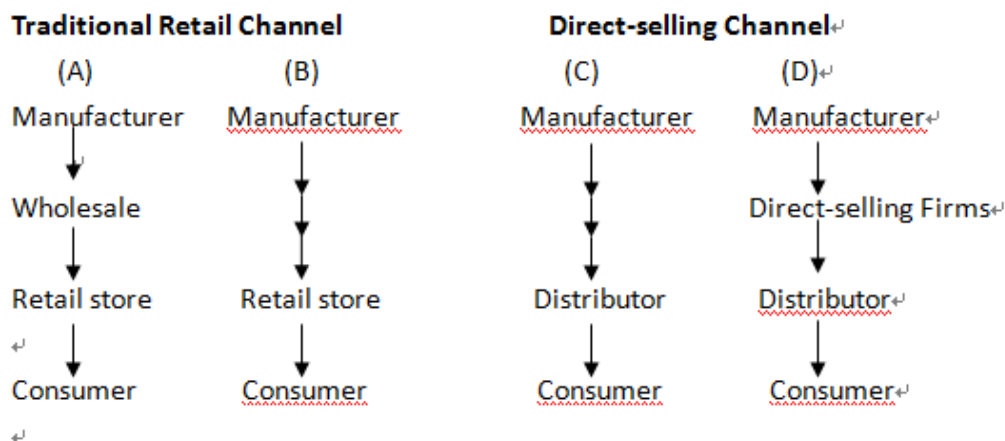


Figure 2-1 Original Marketing Channel

Resource: Organized by This Research

The design for multi-level direct-selling system is different from the design for traditional selling channels because it reduces product flow among layers of intermediates. Instead, through the process that products distributed from manufactures to sales representatives and then customers, it builds countless customers, and finally becomes a huge consumer group through quick growth on a multiplier basis 【Lin (2001)】 .

More and more direct-selling companies take more than one channel to segment market, for example, taking both direct-selling and distribution. The multi-channel system can expand selling opportunities, but it may cause channel conflict and control problems if not integrated well.

2.2 Competitive STRATEGIES

2.2.1 DIAMOND MODEL

The diamond model is an economical model developed by Michael Porter in 1991. The approach looks at clusters of industries, where the competitiveness of one company is related to the performance of other companies and other factors tied together in the value-added chain, in customer-client relation, or in a local or regional context. Although this model at the beginning focused on impact of country competitive advantages, it covered industry competitive advantages.

When companies build operational strategies, they first must apply this diamond model to analyzing the advantages of the industry, and then exercise compare advantages in this industry during operational process to win advantages in the market. While using the diamond model to analyze industrial competitive advantages, companies have to incorporate four key factors, which are factor conditions, demand condition, related and supporting industries, firm strategy, structure and rivalry, into the diamond model, and need to add another subsidiary factors, chance events and government.

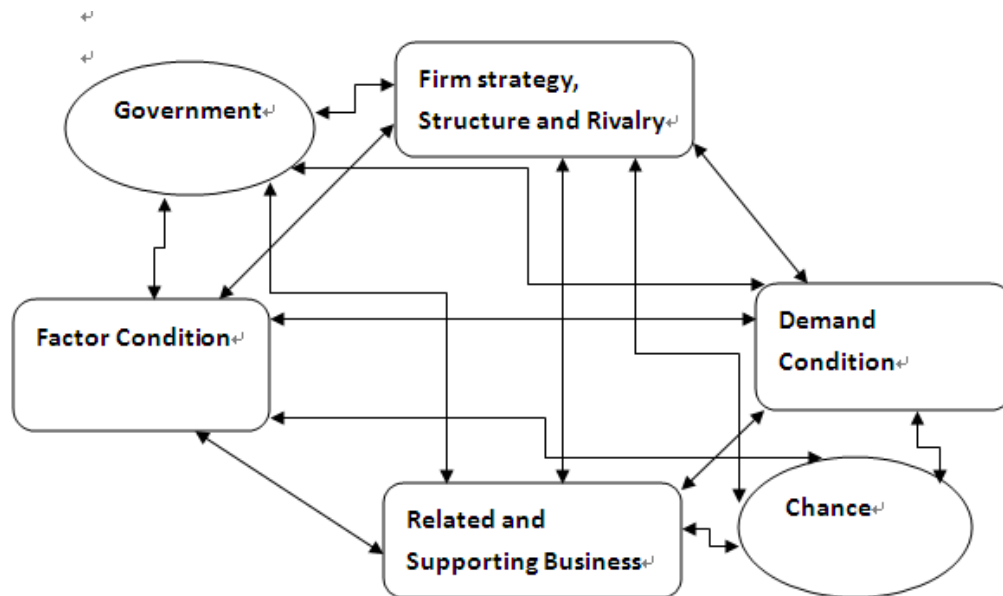


Figure 2-2 Diamond Model
Resource: Michael Porter (1990)

2.2.1.1 Production Condition:

Production conditions are resources that companies invest to produce products. “Non-key” factors (or general use factors), such as unskilled labor, and raw materials can be obtained by any companies, hence, do not generate sustained competitive advantages. On the other hand, “Key” factors of production (or specialized factors) are created, not inherited, and often specific for an industry and important for its competitiveness. Specialized factors of production are skilled labor, knowledge resources, capital and infrastructure, and involve heavy, sustained investment. In the global environment, “Non-key” factors can be obtained from external and their influence on business operation has been decreasing except for the farming industry. However, “Key” factors must come from internal human resource and capital and generate through research and development. Thus, they are more difficult to duplicate.

2.2.1.2 Demand Condition:

Demand conditions in the home market can help companies create a competitive advantage, when sophisticated home market buyers pressure firms to innovate faster and to create more advanced products than those of competitors.

1. Nature of home market

Home market has great influence on perception from business itself and the ability to understand customers' needs. In addition to the feedback from customers, home market also can offer business opportunities to get close to customers to fully know existing and potential customers and hold key information of them.

2. Scale and growth speed of home market

The predicted demand for home market may make one domestic industry grow fast, and market scale and the growth way have greater effect.

3. Ability to transform demand in home market to demand in global market

Porter raised two ways that can globalize home market, and naturally promote products and service abroad. One is bring products and service to international market through mobile cross-country domestic customers. The other is taking demonstration effects to help exportation.

2.2.1.3 Related and Supporting Business:

The range of related and supporting industries is broad, including complete development, coordination and intact of cooperation mechanism of related, upstream and downstream industries due to their interaction effect. In addition, Porter pointed that the appropriate integration of business internal resources and environment of country can bring about compare advantages in industrial management, but will lower down the growth speed of business. Hence, Porter raised the concept of industry cluster effect, that is, the abundant resource and production of upstream, downstream, related business, suppliers, and research and development can be gather together as a key site of industrial development, and those can become unique competitive advantages in regional or global area.

2.2.1.4 Firm Strategic Structure and Rivalry Competition:

Firm strategy, structure and rivalry constitute the fourth determinant of competitiveness. The way in which companies are created, set goals and are managed is important for success but business's goal, strategy and structure are often different depending on countries. In business strategy part, some focus on brand research and management; some are likely to avoid standardization and price war to differentiate and fulfill few picky customers. A company's choice of strategy can reflect advantages of its home country.

The four factors of diamond model constitute competitive advantages and environment of industry. They need to be assessed individually because they have different influence on different industries. Diamond model is a dynamic system so any factor can be affected by the others. The more efficiently the diamond model works, the more effectively the business industrial strategy manages.

2.2.1.5 Chance:

Chance events are occurrences that are outside of control of a firm or government. They can promote adjustment of industries and provide opportunities for business in one country to surpass firms in other countries.

2.2.1.6 Government:

Government can influence each of the above four determinants of competitiveness. On the other hand, government can be affected by the four determinants. Porter thinks government play a role as a simulator of forming a macro economics environment, keeping soundness of politics, improving the ability of micro economics in macro economics conditions, erecting regulation of whole micro economics, and being a supervisor. By doing so, industry can increase competitive ability through fair market environment.

2.2.2 FIVE-FORCE MODEL

Porter thinks what a firm care about most is competitive intensity within the industry determined by basic competitive forces in the industry. The forces which drive competitiveness in the industry are the threat of entry, the threat of substitutes, the power of buyers, the power of

suppliers, and the competitive rivalry. In a high intensity of competitive industry, there are many competitors and substitutes, firms have less power than suppliers and buyers, thus any firm can enter it free. In the short run, these forces can limit a firm's operation, but in the long run, a firm can make use of strategic choice to change more than one competitive force to gain advantages. The following are explanation for the five competitive forces:

2.2.2.1 Threat from New Entrants

Researches demonstrate that most firms do not pay enough attention to the threat of new entrants. In fact, many new entrants often carry huge number of resources and cause great negative influence on the current firms within the industry. At the result, the current firms have no choice but increase efficiency of production to expand to another new field.

As we know, there are two factors which determine the probability of a firm entering an industry: entry level and expectation of revenge on current firms. If it is difficult for a firm to enter an industry or if a firm will be in an inferior position after entering an industry, then we can say there is an entry barrier within the industry.

1. Obstacles to Entry

Firms within an industry do not welcome new entrants so they usually strive for creating entry barriers for market. On the contrary, potential entrants also search for an industry with lower entry barriers. The obvious entry barriers are as follows:

2. Economics of scale:

When a firm increases its scale, its marginal revenue will grow up as well. From cost perspective, while a firm manages production, with the fixed unit variable cost, the more units a product is produced, the more fixed cost can be shared, and then a firm can reduce the unit cost of the product. The barrier of economics of scale can be realized by economic activities, including manufacture, research and development, marketing, procurement, service, and so on. Under this condition with barrier of economics of scale, new entrants will hesitate to enter because if they have greater scales than existing firms within the industry, they may be fear of revenge; however, if their scales are smaller than the existing firms within the industry, it is not easy for them to cost down being a relative inferior position.

3. Product differentiation:

We all know that the market position is fairly important, and nowadays people care more about product differentiation. In fact, the only way that a firm can use to attract customers' attention is offering customized products or service to display their features. By doing so, a firm can take advantage over competitors to promote its product or service.

4. Capital:

Competition means huge amount of investment in a new industry. In addition to factory, facilities and equipment, inventory, marketing activities and other critical function of enterprise needs great amount of capital. Thus, even if a new industry is promising, new entrants possibly can not afford to huge amount of capital to support various expense.

5. Transitional cost:

Transitional cost means the once cost which transform from customers to new suppliers, for example, buying new subsidiary facilities.

6. Entering distribution channels:

Products come into market through effective distribution channels. Once a firm bridges merchandize relations with distributors, it will carefully develop the market to produce transitional cost for new entrants. Hence, distribution channels are extreme big barriers for new entrants.

7. Cost inferiority which is not related to scalability:

Sometimes existing competitors have cost advantages over new entrants due to their skilled labors, unique product technology, fluent procurement channels and government support.

8. Government policy:

Government may set restrictions to entering specific industry through licensing or permission.

9. Expected Revenged Measures

A firm must predict the react of existing companies before entering an industry. If expect their reaction will be aggressive, the possibility of entering the industry will be lower. If a new entrant is related to the benefit of a industry, or if the new entrant has abundant resources, or if the growth of an industry will be lower or constrained after a new entrant enter, the probability of taking renege actions by existing firms will be high. Under this condition, a new entrant can search for a new

market in which those existing firms have not engaged to avoid entering barriers. Besides, small new firms have better look for and engage in those ignored sub-markets.

2.2.2.2 Bargaining Power of Supplier

Suppliers may appear their powers through increasing price or lowering product quality. If a firm can not deal with increased cost by pricing structure, its revenue could be reduced owing to the suppliers' actions.

Suppliers gain more bargaining power in the following conditions:

1. Suppliers are controlled by few giant enterprises and more concentrated than the industry where a firm is.
2. There are not good substitutes.
3. A firm is not the important customer to the whole industry of suppliers.
4. The products offered by suppliers are key products of buys.
5. The products offered by suppliers have increased high transitional cost to buyers.
6. The probability of suppliers' integration and entering the industry of the buyer is high.

2.2.2.3 Bargaining Power of Buyer

Firms always look for higher returns of investment, but customers always expect get the best products and service with the least expense. This price is going to become the smallest returns of investment which suppliers can accept. In order to lower expense or reduce cost, buyers often bargain for better products, service and lower price. At the same time, the competition among suppliers in the same industry will also bring buyers benefits.

Researches demonstrate customers have more ability of bargaining in the following conditions:

1. A buyer has bought most of production in the suppliers' industry.
2. The cost that a buyer buys products from suppliers' industry accounts for large part of cost of a buyer.
3. A buyer can buy other products with small cost.
4. Both a buyer's and a supplier's industries are similar, and the probability of the buyer' integration with others and entering the supplier's industry is extreme high.

2.2.2.4 Threat from Substitute

Substitutes are products and service from different industries, and the functions of the products and service are similar to those of products and service in the industry. Generally speaking, if the transitional cost of customers is low and even zero, or if the price of substitutes is lower, or if the quality of substitutes is better, or if the function of substitutes outwits that of competitive products, the threat of substitutes is great. Making differentiation in what customer's value, such as price, quality, service and place, can reduce the competitiveness of substitutes.

2.2.2.5 Threat from Existing Competitors

If there is no leading company, the number of firms is large, firms have high fixed cost and inventory cost, firms have over production, a product has high promotion barrier, a product has no differentiation, or an industry grows slowly, the competitive intense of current industry is high, and that will increase buyers' bargaining ability to influence the profitability and attractiveness of the industry. Any firm who holds activities to cute price or launches new products will lead to competition among the other firms. It is so-called "cut-throat competition" in economics.

Because firms control each other in the industry, one firm's action must cause other competitive reaction. Thus, in many industries, firms are aggressively involved in competition to chase strategic competition and extra profit. If a firm is challenged, or if there is a prominent chance for a firm to improve its market position, the fiercely competition is inevitable. Visible competition contains price, quality and innovation. Generally speaking, firms always try their best to take good advantage of what customers' value to differentiate their products.

In sum, through analysis of industrial environment, we think that the competition level and potential profitability of an industry depend on the above-mentioned five forces model and competitive forces. Undergoing the analysis of these questions, firms can completely comprehend the external competitive surrounding, and it is beneficial for firms to positively encounter competition and acquire extra profit.

2.2.3 BLUE OCEAN

"Blue Ocean Strategy" was raised by two masters of management, W. Chan Kim and Renée Mauborgne, in 2005, which was different from Porter's famous competition strategy. They think the framework of industry may be changed with centering on innovation, expanding demand and making valuable differentiating to make industrial framework bigger and lead to a new field. In this new field, there are no or few competitors, so firms can gain abundant profit, and firms can both grow and

earn revenue. From economics perspective, “Blue Ocean Strategy” is to create the most consumer surplus and produce larger supplier surplus.

The difference between “Blue Ocean Strategy” and “Red Ocean Strategy”, based on competition, is the latter maintains that the framework of industry is fixed, and firms are forced to compete in this framework. This statement was from the viewpoint of “Structuralism” or “Environment Determinism” in the academy. In the red ocean, it costs a lot to make differentiate because all of the firms need to hold the same principle of “the best practice”. Under this situation, the only strategy firms can choose is making differentiation or lowering cost. On the contrary, value innovation is based on the edge if market and unknown business structure, but value innovation can be restructured by the behavior and belief of firms, which is so-called “Restructuralism”. In this restructuralism world, the goal of strategy is to break out existing “price in exchange for cost” model, and to create another new and the best practice to open the blue ocean.

From the above we can know that “blue ocean” is the way to reduce cost and increase product value for customers. This is the method which simultaneously creates value addition to firms and their customers. Because the value which customers gain come from the products benefit offered by firms or product price, and the value firms acquire comes from product price and cost structure, firms can achieve value innovation as long as being under the appropriate systematic integration of product benefit, pricing and cost activities. Concentrating on the long-term system can make “blue ocean strategy” lasting. In other words, “blue ocean strategy” unifies interaction between all functions and execution of a firm. Namely, value innovation means not only innovation but also covers whole strategies of a firm. To achieve value innovation, the entire operation system of a firm must be positioned to get the value addition to both customers and the firm, or innovation does not have any business with the core of strategy.

While building “ blue ocean strategy”, a strategic draft offers you a diagnosis and action framework to make you understand the competition focus in the current market, the competitive factors of current product, service and supply, what the customers have got in the current competition, and the strategy complexity and pricing curve. To create a new market without any competitors and new pricing curve, we have to develop new thinking and action framework. In order to break out differentiation and establish new pricing curve, the strategic logic and business model in the industry need to be challenged by the following four key questions:

1. What factors taken for granted can be deleted in the industry?
2. What factors can be reduced below the standard in the industry?
3. What factors should be raised above the standard in the industry?
4. What factors never before offered should be created?

The first question makes you think what competitive factors in the industry should be deleted. These factors have existed for a long time and are taken for granted; however, their values have been decreased or even destroy current value. The second question forces you evaluate if the product and service are over provided only for outwit and feat back competitors. If a firm offered too much to customers, it will not gain any benefit except for the increasing cost.

The third question is to find out in the industry if there are any products or service which no firms offer but customers need. In this situation you have to figure it out. The forth question helps you develop a new foundation based on customers' values, create new demand and change pricing strategy in the industry.

The first two questions let you think about how to change the cost structure to avoid negative impact from competition. The rest two questions help you consider how to increase customers' values and create new demand. According to previous experience from some scholars, "Blue Ocean Strategy" can be initiated with four assumption principles and two execution principles:

Four assumption principles

1. **Reconstruct Market Boundaries:** Redefine the boundary of the industry from six approaches to go out of traditional thought and reduce search risks.
2. **Focus on the Big Picture , Not the Number:** Strategy should come from vision to avoid being in the game of numbers, and to reduce planning risks.
3. **Reach beyond Existing Demand:** Pay attention to divide the differentiation of customers, trying to find out the common part between firms and non-customers to expand new demand and market, and to reduce risks.
4. **Get the Strategic Sequence Right:** Put the buyers' benefit into top priority, set up target product based on pricing strategy, and figure out the hinters due to force of strategy to solve the risks from business model.

Two execution principles:

1. **Overcome Key Organization Hurdles:** Use "Tipping point leadership" to overcome hey obstacles. There are some people, behavior and activities have asymmetry influence on the performance of each organization. Therefore leaders should find out the key factor and make good use of it to overcome the hurdles.
2. **Build Execution into Strategy:** Because of the difference between the Blue Ocean Strategy and the traditional competition strategy, there are inevitable blocks when pushing the former strategy. Thus, use fair programs to make members work proactively

with sense of responsibility and help implementation of strategy with small management risks.

2.2.4 SWOT ANALYSIS

Ansoff raised SWOT analysis in 1965 and thought that firms have to find out their advantages and disadvantages from the both external and internal angles.

The main purpose of SWOT analysis is to search for the resource and capability of a firm which can be matched with the environment where it belongs. In other words, through the SWOT analysis, a firm can grasp environment and chances based on its core competence, replenish its disadvantage and try to avoid external threats. Because of the clearness and easy use, SWOT analysis is applied to every field.

Concerning the establishment of strategy based on the SWOT analysis, **【Wehrich (1982)】** proposed the concept of SWOT matrix, matching internal advantages and disadvantages with external opportunity and threats. Positioning by the biggest advantage and opportunity and the smallest disadvantage and threat to draft appropriate reactive strategies, which are divided into four types:

SO strategy: Enhance advantage by using opportunity; (2) ST strategy: Enhance advantage by reducing threat; (3) WO strategy: Reduce disadvantage by using opportunity; (4) WT strategy: Reduce disadvantage by decreasing threat. (Refer to Table 2-1)

Table 2-1 SWOT Strategic Matrix

SWOT Matrix		Internal	
		Strength (S)	Weakness (W)
External	Opportunity (O)	SO Strategy	WO Strategy
	Threat (T)	ST Strategy	WT Strategy

Resource: Organized by This Research

The application of SWOT analysis is limited because it never mentions how a firm can define its resources instead of purely focusing on the importance of advantage, disadvantage, opportunity and threat when analyzing the organization and environment. Therefore, the data or reference may be misleading for a firm while doing analysis, leading to incorrect conclusion.

III. COMPETITIVE STRATEGY MODEL AND FRAMEWORK

3.1 COMPETITIVE STRATEGY MODEL

First of all, before entering market, a company will establish a series of operational strategies to face challenges from market competition, Secondly, before setting up operational strategies, a company must know the existing and potential competitors and its position in the market. Finally, a company needs to establish industrial management strategies based on practical successful theoretical models; meanwhile, it also needs to keep adjusting industrial structure following market change. Based on this, this research in the beginning is going to discuss which theoretical models are used for operational strategies, and what are included in these models. Thus, this research is going to Analyze Amway (China)'s competitive advantages and business strategies through Diamond model, Five-force model, Blue ocean model and SWOT analysis.

3.2 RESEARCH METHOD

Generally speaking, the academy in management is prone to recognize the research result based on the inference from quantified research method. However, for the new field of technology management, actually “what scientific research” is can be discussed. Normally, quantified research regards external environment as objective existence and thinks people's experiences of everything are objectively common. Hence, from the positivism perspective, experiences can be quantified, reified and materialized. On the contrary, qualified research asserts that the experiences of people are from the interaction between people and the society, thus, it explains based on philosophy.

In social science field, research method can be divided into two sub-methods, which are statistic quantification and explorative qualification. Generally speaking, quantitative analysis is a positive research which is applied to delete the framework and focus on investigation and interview on large sampling. On the contrary, the goal of qualitative analysis is to explore initial opinion rather than verification, so it needs no support from large sampling. It is difficult to use quantitative methods to analyze most industrial analysis in concrete numbers to evaluate the impact caused by environment variables because research can find more results with variables in numbers than with interview

investigation 【Yin (2003)】. Hence, this research is going to apply qualitative research method.

This research concentrates on a case study, namely, the case will be under deep discussion instead of generalize the theory. Though case study focuses on conditions and examples about specific few companies and makes deeply research, this research way can lead to a delicate and practical research and help us comprehensively understand the interaction between factors. Additionally, the research result could be reference with high value for similar industries or other companies. The interaction of competition or cooperation within the industry has different influence on strategies, so it is difficult to take quantitative way to evaluate the effect of competition with dynamic environmental change in concrete data. Thus, this research applies case study. Through observation and analysis of the direct-selling industry, competitive advantages and development of business model of Amway, inducing and extracting qualitative descriptive information by widespread collecting second-hand and related information to understand the current status, strategic planning and future trend of the direct-selling industry. Furthermore, though competitive five forces, diamond model and Blue Ocean to build SWOT analysis, and to find out the core competence, competitive advantages and strategic direction of the case company. By going so, it makes the management team know the company' strengths and weaknesses, grasp chances and avoid threats, and establish accurate strategies to maintain long-term competitive advantages.

While conducting a case study, deeply analyzing on second-hand material is a mainly process. This research is going to collect second hand materials such as internal and abroad industrial information, professional evaluation and analysis reports, professional journals and magazines, information on professional websites, information about competitors, public financial report and information of the case company.

3.3 RESEARCH FRAMEWORK

This research is going to mainly discuss the competitive advantages of growth and business models of the direct-selling industry. So first of all, based on the basic research framework of the case study, identify the question and goal, and begin to collect competitive advantages and related industrial information to limit the research area. Second, understand internal and external competition of Amway in the direct-selling industry through the analytic framework of diamond model, five forces competitive model and blue ocean strategy. Third, deeply discuss and examine Amway's competitive advantages and business model. See the figure 3-1 for details.

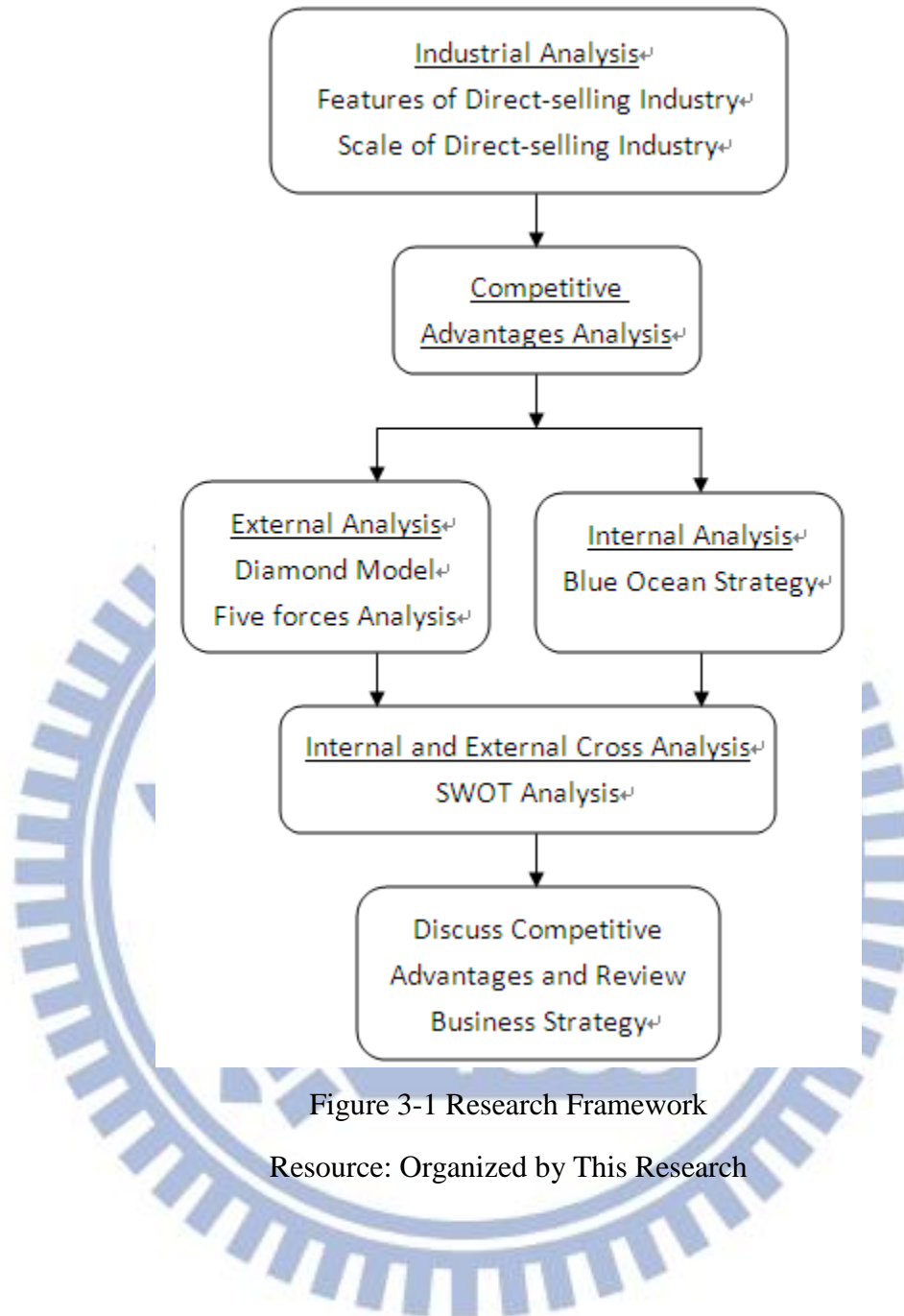


Figure 3-1 Research Framework

Resource: Organized by This Research

IV. AMWAY'S DEVELOPMENT IN CHINA

4.1 INTRODUCTION OF AMWAY

Amway began in Ada, Michigan and founded by Doctor. Richard M. DeVos and Jay Van Andel in 1959.

Nowadays, Amway covers more than 80 areas worldwide, has more than 13 thousand employees globally, 390 acre factories, more than 400 kinds of owned products, and more than 3600 thousand sales representatives. Amway has 97 labs around the world, in which more than 570 are professional technicians. In the Ada headquarter, there are 57 labs with cutting-edge equipment and technology, and 450 experts and technicians. Amway owns 525 patents.

Amway's products can be divided into 5 series and 450 kinds, containing Nutrilite nutritious and health foods, Artistry cosmetics and skin care products, personal care utilities, house care utilities and home technology, and so on. Amway's vision is to "help people lead a better life", and its mission is to "offer people opportunities to realize their goals in their life". Amway emphasizes the basic management concept of "freedom, family, hope, commission". Amway relies on sales representatives to fulfill this concept and uses "partnership, integrity, personal worth, achievement, personal responsibility and free enterprise" to drive its sales representatives.

4.2 ENTER CHINA

According to the website of Amway (China), in 1990, Amway began to consider entering the China market due to its giant market potential. In 1990, Amway began considering entering China market due to its huge potential market. In August, Amway gained the permission from Chinese government. In August, 1992, Amway Asia Pacific Co., Ltd. and Effectual Enterprises Company Limited invested 0.1 billion as registering capital, 0.8 billion and both side formally signed contract. In October, 1992, Amway acquired the permission from the State Administration for Industry and Commerce of the People's Republic of China (SAIC) to sell products in China by direct-selling way.

After visiting Beijing, Shenzhen, Guangzhou and Shanghai, Amway decided to build production base in the Guangzhou economic and technological development zone. In the area, Amway purchased 58 thousand square meter land to build factories, annually manufacturing 23 thousand home cleanness utilities and 3000 ton personal care utilities. In 1993, Amway started to building factories, and In January 1995, the first period construction was finished. In April 1995,

Amway China launched its business in both Guangdong and Fukien provinces. It took Amway 5 years to prepare entering Chinese market.

After entering Chinese market, Amway adjusted its business model first to apply the development of Chinese market; namely, Amway adopted “marketing through both retail store and sales representatives” model, which never was used by other companies worldwide. Second, Amway changed its return guarantee mechanism in China, for instance, customers can get the total amount refund as long as they return the products with sales price within 7 days.

Amway also modified a lot in market promotion such as advertising strategy of Nutrilite. Since 2001, Amway started to use Michelle Fu as the representative to broadcast advertisement on (China Central Television, CCTV) and many other TV stations. In September 2002, Amway hired Tian Liang and Guo Jingjing, the Chinese champions of diving as the image representative. Amway not only invested huge capital in advertising but also sponsored many sport activities, such as China's Olympic team in 2002. Furthermore, Amway became the designated sponsor for the China's Olympic team in 2004.

After a series of revolution, Amway succeed in China. Nowadays Amway produces and sells more than 400 various kinds of products in China to completely fulfill consumers' daily needs.

4.2.1 NUTRITIOUS HEALTH CARE FOOD: NUTRILITE

Amway bought the share of Nutrition to extend the brand, making the production line longer. Under the brand of Nutrition, Amway continued launched Vitamin C, Vitamin B-group, Calcium tablet, Magnesium tablet, natural Beta Carotene nutritious capsule, and so on. After that, Amway classified its products to fulfill different customers' needs.

4.2.2 BEAUTY AND COSMETICS: ARTISTRY

Artistry skin care products of Amway began promoting since 1968, and it succeeded. According to the investigation of global revenue of retailing conducted by Euromonitor, the global market investigation and research authoritative institute shown, Artistry has already been one of the 5 top global firms of face care and cosmetics.

4.2.3 HOUSE CLEAN AND CARE UTILITIES

Amway is the top fourth manufacturer in furniture cleanness, including the series of housekeeping and clothes washing and personal sanity products.

4.2.4 PERSONAL CARE UTILITIES

Personal care utilities consist of body and hair wash, lotion, shaving, and so on.

4.3 Amway's Current Situation in China

According to the Euromonitor International, Amway China was the fourth largest company in cosmetics and toiletries sales in 2005 – with a 5% market share overall. This report also showed that the cosmetic brand Artistry was second in overall cosmetic brand share, with 4.3%, closely following Procter & Gamble, Olay brand with 5%. Furthermore, it was the second largest in Color Cosmetics with 7.5% market and brand share in all regions of China. In addition, in the over-the-counter healthcare category, Amway held an overall value share of nearly 19%, far exceeding that held by the next closest competitor. In other words, Amway was the top performing player in vitamins and dietary supplements in China, capturing over 25% of vitamins and dietary supplements in 2004. Nutrilite, was the leading brand with value share of more than 13%, including the best selling brand Nutrilite Protein Powder, and its multivitamins and other dietary supplements, such as calcium and fish oil. Even if Amway China was not a major player in the home care products, with 0.1% of the overall market, it had brand recognition and share in laundry care and dishwashing products. The laundry detergent, SA8, was ranked ninth in the nation with 0.5% brand share and Dish Drops was ranked eleventh with a 1.1% brand share.

According to Michigan News (Feb. 17, 2011), Amway reported that it had 2010 sales of \$9.2 billion, a 9.5 percent increase over the sales it reported in 2009. Amway said that this performance had been the company's 10th sales increase in the past 11 years, and huge growth was driven by strong results in China, which is Amway's largest market. Moreover, China accounted for more than one third of its global sales in 2009.

4.4 AMWAY'S MARKETING STRATEGY IN CHINA

Although Amway entered Chinese market by unique marketing method and succeeded, the need of target market will change with the continuous change of competitive environment. Successfully entering the target market does not mean successfully occupying the whole target market. Hence, Amway has to re-evaluate the future market trend, from which catches its own core competence. Currently, Chinese government only permits Amway to develop business in the cities alongside the ocean such as Guangdong and Fukien provinces. However, analyzing marketing strategy of Amway is fairly beneficial. According to marketing strategies of the Amway (China)'s website, they can be analyzed as follows:

4.4.1 PYRAMID ORGANIZATION AND TEAM WORK MECHANISM

The traditional pyramid structure is designed for huge amount of production and marketing. The first line of employees only can devote to selling as many as products, but can not choose product and manufacture method, and change products to satisfy customers' needs. Nevertheless, under the Amway's direct-selling model, tasks can be completed in groups across different functions. If a small but multi-functional group has a specific target market, it can get larger authority to implement self-management to deal with all questions related to products. The marketing team excludes members who can not achieve goals to reduce communication hurdles, and self-management can shorten the decision time. In addition, the task of the team actually centers customers.

4.4.2 E-COMMERCE MARKETING-B2C MODEL

In China, Amway has 300 thousand active sales representatives and many registered preferred customers. There are several ways that sales representatives and preferred customers can get products, such as phone-ordering, buying in retail stores, buying with faxing to retail stores, ordering on "Amway commercial portable" customized cell phones or on the Amwaynet website. Except for purchasing in retail stores, other digital means are B2C purchasing experience. The B2C process consists of the logistics and delivery from business to consumer and the cash flow from consumer to business. Amway' e-commerce marketing strategy creates a more convenient and speedy approach for consumers to get products, and this strategy also provide customers opportunities to experience.

4.4.3 EXPAND WITH STABILITY

Because of the condensation of Amway's products, sales representatives have to explain and instruct to customers while offering service. Thus, Amway consider the acceptance degree of sales representatives and customers when introducing new products and setting operation sites. In addition, Amway takes the marketing strategy of making progress while ensuring stability. Amway started business in Guangdong and Fukien provinces in 1995, and then set up an east China office in Shanghai in January 1996, and in July, Amway launched business Hangzhou and Nanjing. Amway (China) kept opening new market based on stabilized market during the initial period. Until now, Amway's business has spread all of the provinces and cities around the country, and established 60 retail stores. Amway (China) also takes the strategy of making progress while ensuring stability when launching products. Considering the training of sales representatives and the acceptance of market, Amway (China) launches one or two new products monthly.

4.4.4 INCENTIVE MARKETING STRATEGY: MODULAR OPERATION

Amway's model is like MacDonald's, building up a successful original store first to get the revenue model from it and then duplicate its operation method continuously. Amway designed the

original model by commission system and engagement probability. To be specific, in every three sales representatives, one is active, another is inactive, and the other is neutral. When you recommend 20 people to be the sales representatives, there will be 6 active, 8 inactive, and 6 neutral. Referring to the Amway's successful standard, Diamond, for which are the most common target sales representatives strive. A sales representative who own the diamond pin title must have 6 teams, and each team's volume is more than 10 thousand points half a year. According to the Journal issued by Amway in 2001, the average annual salary of diamond managers is RMB790 thousand. Based on the business path designed by Amway, when starting your business, you should recommend 20 sales representatives, 12 of whom have volumes, 6 of whom have volumes accounting for more than 3% of the total volumes in this so-called "eagle" structure. If regarding this structure as a brick, Amway actually plays a game about duplicating and accumulating bricks. Each eagle structure has to achieve at least 1600 points, and is your team generates more than 6 eagle structures, then your volumes will achieve more than 10 thousand points (1 sector), and then you can get the silver pin title. After maintaining for 6 months, you will become sales executive. If you have 6 sectors and each sector has 6 eagles, then you will become the diamond manager.

Hence, Amway's bonus incentive strategy has the following features:

1. This mechanism is surmountable, that is, promotion of distributors is not limited by their boss, and those who work hard and have abilities can surpass their boss. The distribution of salary of business should break the rule of years of working, and that can motivate people's creativity and make business alive.
2. Multi-level salary design is more motivating and compatible than single-level one. However, the percentage of the bonus for distributor needs to be reasonable, so the firm can get the certain revenue. For instance, the leader bonus makes seniors develop juniors and seniors can enjoy the benefit through transforming their abilities to juniors. By doing so, business has motivation to make progress, strengthen employees' loyalty and create corporate peaceful culture.

4.4.5 BRAND MARKETING STRATEGY: REVERSE MARKET CRISIS

Amway mainly produces daily-use products including Nutrilite nutritious and health care food, Artistry beauty and cosmetics, personal care, house care and crown pots and pans. All of them can be divided into five categories and 198 kinds, with features of high-end technology, condense formula, natural ingredients, good quality, various kinds, environmentally-friendly and durability.

1. Researching and developing on products is foundation

Nutriline, a global leading brand about vitamin and mineral and consecutively became the only exclusive supplementary food for the 27th and 28th Chinese Olympic representative team. 6 kinds of products among Nutrilite are recognized exclusive products for the “Chinese North and South Pole Exploration team”.

Artistry beauty and cosmetics are in a stable position as the global best seller among the top 5 brands and gains many patents about innovative ingredients. As to the house clean products, Amway mostly adopts condense, environmentally-friendly and high-effective formula, and those also are selected the only products for the “Chinese North and South Pole Exploration team”. In addition, 9 of them even acquires the certificate of environment I sign type issued Chinese government.

The outstanding performance is resulted from Amway’s strong research and development ability. Amway has 97 professional labs and 65 quality test centers in the globe to do research projects about product formula, evaluation and process establishment. So Amway has gained nearly one thousand patents until now. Meanwhile, Amway cooperate with 85 business organizations and 75 colleges in technology for long term, and the research results and thesis are published more than 200 professional journals and acquires many international academic rewards.

2. Product quality is assurance

High international level of research and strict manufacturing process make Amway can guarantee good product quality for consumers. The process from material selection, procession, quality examination to package is followed strict rules of quality examination to make sure the quality of products on market.

The factor of Amway (China) already passed the strict examination of product quality and management level by two international authorized certificate organizations, the Underwriter Laboratories Inc. (UL) and the British Standards Institution (BSI), and that make Amway became the 1st daily-use product company that gained the both certificates at the same time.

For consumers, Amway offers “satisfaction guarantee” after-sales service, and initiates the service of “return goods without any reasons” in the daily-use product industry. Improving

quality makes Amway gain positive images such as “the brand customers believe” and “satisfying products for users”.

3. Multi-brand strategy

First, in market position, when Amway entered in China market in the early of 1990s, it only has two series of products, personal care and house clean. As the income of Chinese rapidly increases, Amway gradually launched the Artistry series in 1997, the Nutrilite series in 1998, and Crown pots in 2008. Nowadays, many people make Amway’s products as daily necessities; accept the price of Amway’s products; show their social positions through Amway’s brand, then become Amway’s’ loyalty users.

Second, in consumer position, the benefit of consumers is from their perspectives, that is, what value from the brand can satisfy consumers’ expectation. Speaking of the selection of benefit position, in addition to the basic product benefit, psychological and symbolized benefits also account, then a firm complete the transformation from product to brand. Thus, position and brand are the both sides: if brand is consumer’s cognition, then position is the process a firm delivers its brand to consumers. Consumer benefit must display two benefits as follows:

(1) Rational function is the value of using brand product. Consumers first consider the using value of products such as function and C/P value. After coming out conclusions through experiencing product practical functions, consumers will have impression on these products. The rational function is the base for building brand personality, and it can make consumers raise affection with the brand

(2) Brand also have nature of emotion and self-display. Using a brand for a long time causes consumer’s reliance on brand. In addition, The image and value of individual consumer also can appear through using high-quality, high-effective and well-known brand products.

4. Finally, in brand strategy, Amway has various kinds of products and adopts different brand strategy depending on the characteristics of product series.

(1) Single brand strategy

The main strategy of single brand management is brand expanding. When encountering one brand, people have same reaction to its new products as old products. Because new products associated with the famous and reliable brand name, it is easy for customers to accept the new products. Amway's Nutrilite nutritious health care food applies single brand strategy, containing vitamin C, natural vitamin B group, calcium tablet, magnesium tablet and so on, and keeps a high quality image. Additionally, there is sufficient connection between old and new products, so new products strengthen the brand position. Amway's reasonable brand expansion acquires success in market.

(2) Multi-brand strategy

Multi-brand strategy is a firm owns at least two brands because the firm would like to consider and satisfy different customers' needs and to make customers different stimulation and recognition. Amway's beauty and cosmetics belong to this strategy. The original meaning of Artistry is "art skill", representing the brand spirit of "elegant, high-class, and beautiful", and uses "beauty is possible" as a brand slogan. Additionally, Yizi series focuses on fashionable young women through passing on young, active, fashionable, low-profile and intellectual images, expressing a brand spirit of "easy use, easy make-up".

(3) Leading and side brand strategy

A firm can take advantages of consumers' love for its brand to expand brand. Namely, launching new products or entering a new business field based on the current brand to save promotion cost, raise the acceptance level of consumers. For instance, Amway's house and personal care series are less famous as the side brands and increase product recognition though Amway's well-known business name. A good brand can accumulate its brand asset and has certain market influence, and brand expansion achieves the two effects.

4.4.6 PUBLIC WELFARE MARKETING STRATEGY: IMPROVE MARKET COMMUNICATION

The image is really important for a multinational business, in particularly for a direct-selling company. Before the Chinese government banned multi-level marketing companies in 1998, many

illegal multi-level marketing companies appeared, and it caused inconvenience to Amway in developing business. Under this situation, Amway attempted to get involved in China local society to become part of their life and to differentiate from other illegal multi-level marketing companies. Amway sponsored a lot in China social public welfare activities. In order to search for appropriate public welfare theme, Amway has hired experts who master in the “public welfare business and market” to investigate Chinese culture since it entered the market. Since 2004, Amway has set three themes of “Children, Environment, and Health” to be project management. “Children” is future and own unlimited shiny prospect, and that is suited for the business spirit of “adding color to your life”. Moreover, “health” and “environment” are “Chinese features”, and also become social issues that people care about. Since 10 years ago, Amway has invested millions of capital and cooperated with universities such as Ching Hua to run the activity of “Amway famous school” in poor areas, establishing scholarship, donating teaching facilities, improving the teaching environment, and encouraging students to contribute in the teaching business in western China. This business also ranks the 5th in “Donation by Cross Country” in the Forbes Chinese version.

In the respect of environment, Amway insist using environmental-friendly material, plants “Amway woods” for consecutively 7 years, do many big activities to pass on green ideas and healthy life style. According to the report from Nelson in 2006, Amway (China)’s reputation reached average 83% among people in first-tier cities such as Beijing, Shanghai and Guangzhou.

The performance of public welfare marketing is clear: indirect promotion, brand image increase, put employees together at activities; gain more recognition from government and media and that is the key factor for Amway to set policy direction. A successful business has at least two abilities: one is business management, the other is public relation with government, and the latter is beneficial to business development, and without any doubt public welfare marketing is one of the most effective ways for international firms to engage in public relation with government.

4.4.7 DIRECT-SELLING STRATEGY: CORE STRATEGY OF AMWAY

Instead of delivering products though agents and wholesalers between firms and customers, Amway (China) directly uses retail stores. Since 2001, Amway has promoted products through both mass media advertisement and world of mouth from sales representatives. Sales representatives who

obey the policy and procedure are key roles in the whole process from knowing products, buying products to after-sales. They are core and successful key factor of Amway, and Amway (China)'s all marketing strategies are developed surrounding them. The features of Amway's direct-selling are as follows:

1. Direct sales: Because there are no intermediates between manufacturers and consumers, it is beneficial to process management from manufacturing to sales, information communication, policy implementation, easier to contact market and save cost.
2. Network establishment. Amway organizes huge sales teams to promote products. Networks are also called sectors, and distributors develop downlines through direct or indirect sponsor to form their own network. Amway erects more strict management rules for networks that can be inherited.
3. Multi-level commission. Distributors can gain profit not only from their own sales volumes but also from the volumes of their whole team or network or sector composed of those who are direct or indirect sponsored.
4. Transformation of distributor rules. Distributors are not only sales representatives but also loyalty consumers of Amway and repeatedly purchase products. In addition, part of their bonus is from how much they buy.
5. Product explanation and demonstration. Before selling products, distributors arrange meetings for product explanation and demonstration, especially for those high added-value products. Explanation contains ingredient, function, effect and so on; demonstration includes using products on spot and share their own experience about products. By doing so, customers can understand products more and increase desire and confidence of consumers to buy products.
6. Distributor conference. There are many types of conferences, including product seminar, sponsor meeting, experience sharing, tour seminar for senior leaders, and so forth. Sponsor meeting is important, which is a means that Amway promote itself and recruit new distributors through sales explanation, experience sharing and all kinds of beliefs promotion.

The other conferences are to encourage distributors and promote their business through tour and communication with senior leaders of the firm.

4.5 AMWAY'S COMMISSION SYSTEM IN CHINA

Amway sets up a series of reward mechanism to encourage and recognize the achievement of sales representatives. Successful sales representatives who would like to acquire badge, medal, bonus and other rewards need to obey "Amway Distributor Business Rules". In addition, Amway has the right to decide if sales representatives are qualified for these rewards.

Before explaining the pin and bonus system, we have to understand its framework and the calculation concept of Amway, and then we can understand its content, meaning and spirit. (Amway (China) official website , 2012)

4.5.1 BASIC CONCEPT OF COMMISSION CALCULATION

Each sales representative's bonus revenue depends on his Point Volume (PV), and PV depends on monthly Business Volume (BV). So Amway's products have these two volumes.

Point Volume (PV)

1. PV represents the standard of volume one must strive to reach.
2. This amount decides the monthly percent from 3% to 21% of volumes bonus.

Business Volume (BV)

1. BV is the price prior to any mark-up price, including value-added business tax and retail revenue.
2. BV is the calculated base for the commission.
3. BV is adjusted by inflation rate, so when product price rises with inflation, sales representatives' bonus will increase with the same amount of products he sold.

The ratio of BV and PV is decided by Amway according to the change of factor such as inflation rate, living index, and market demand. Any change of the ratio of BV and PV will be announced in Amway's journals, newsletters, distributor pricing list, business brochure, and so forth.

Table 4-1 Amway's Volumes and Bonus (Monthly)

BV	PV	Sales Bonus
320,000	10,000	21% of BV
224,000	7,000	18%
128,000	4,000	15%
76,800	2,400	12%
38,400	1,200	9%
19,200	600	6%
6,400	200	3%

Resource: Amway (China) Official Website and Organized by This Research

4.5.2 METHOD FOR SALES VOLUMES CALCULATION

Volume bonus is not only calculated by a distributor's own BV but also include the BV which the distributor he sponsored gain. To be simple, the following example is based on the assumptions:

- i. If the ratio BAV and PV now is 32:1, for instance, if BV is 6400, and then PV are 200.
- ii. If the recommendation price and the BV are the same. In fact, the recommendation price is higher than the BV, so the real revenue shall be higher than the calculated outcome.

Example:

If you sponsor 7 distributors, each one's PV is 200 (6,400 BV), and you also sell 200PV product monthly, and then your income is calculated as follows:

Because the total team PV is 1,600, the total team BV is 51,200.

	NT\$
9% volume bonus of 1,600PV (51,200BV×9%)	4,608
Volume bonus you shall pay: (6,400BV×3%×7)	- 1,344
Volume bonus you shall keep:	3,264

Your retail revenue : (6,400×30%)	+ 1,920
Your monthly income : 5,184	
∴ Your annual income: (5,184×12)	62,208

4.5.3 AMWAY'S PIN TITLE AND COMMISSION SYSTEM

Amway establishes many encouraging rules annually according to the different local markets to encourage local distributors to reach specific goals and help them develop widely and deeply.

4.5.3.1 THE FEATURES OF AMWAY (CHINA)'S BONUS SYSTEM

There are three concepts of bonus calculation in the direct-selling industry: accumulation, set to zero and separation.

To be specific, there are three types of accumulation mechanism:

1. Calculation with rate rank. "Perfect", an American direct-selling firm adopts this system, and calculates volumes referring to rate table. The method has nothing to do with time. As long as a sponsor sponsors a new distributor, the sponsor can get the stable and same bonus as the new comers no matter how long the new comer achieves the highest rate.
2. Calculation with stable rate without ranking. "Makelifebetter", another American direct-selling firm adopts this system, giving sponsors the highest commission from new comers and also is not related to time. When sponsors recommend new comers, they already reach 1000PV, so when new comers achieve personal 1000PV, sponsors' income will be USD\$200, and new comers can not get the discounts from their own 1000PV.

*PV is the rate for accounting sales revenue. Take Amway as an example, if the PV of Amway now is 1:6, then monthly USD\$60,000 sales revenue equals 10,000PV.

3. Calculation with unstable rate. "Fu Long", a Chinese direct-selling firm adopts this system. The highest accumulated rate is 12%, and what a sponsor get depends on the rate difference between the sponsor's rate and the new comer's rate. Because both of the rate are changeable, the sponsor's income will be different. If a new comer reaches 12% at the month he participates, he can get the 12% discount; on the other hand, his sponsor only can gain the difference between the 12% and the sponsor's own rate. If the sponsor also

achieves 12%, then his rate difference is 0%.

There is a common point among the three types: Reach the top rate once is the most beneficial.

As to the system of setting to zero and separation, from the sales revenue perspective, Amway's team 10,000PV is RMB60,000, but Nu Skin's RMB8,500 net profit equals RMB10,000 sales revenue. The difference is that Amway's volumes will not be separated until reach 30%; however, in Nu Skin, as long as someone applies for QSR, his volumes will be separated from his uplines. Hence, although the pressure in Nu Skin is only 1/10 of Amway, but volumes in Nu Skin is harder to reach. This can be proved by the following fact: Most of Amway's distributors stock goods to strive for commission and pin title and gain more bonus; however, distributors in Nu Skin do this to maintain their qualification. If a distributor can not achieve personal 10,000PV in Amway, he only loses the commission, and there is no need to stock. Nevertheless, a distributor will be terminated his distributorship if he can not reach 8,500PV without enough stock.

In the set-to-zero system, distributors have to cover the loss volumes due to team separation to get leader commission. As Amway's rule, if a team separates, the team has to reach RMB37,000 sales revenue to get the part of leader commission. If the team wants to get total 4% bonus, each individual teams has to reach RMB60,000 sales revenue or develop another 21% team. Nu Skin's SR has to quickly cover 8,500 volumes after his downline QSR separates, or his distributorship will be terminated. After separation, the team get leader commission. How much bonus upline leaders can gain depend on the volumes base of the separated team, rate multiple of each generation and number of generations. Thus, the key is the real bonus rate and the organization revenue.

As to the leader commission, some firms such as Amway and Nu Skin depend on real PV values; some firms such as Sunrider extract fixed amount from revenue and divide the sum of total PV of all distributors, getting the real amount per point. The real income of a distributor is the amount of the real amount multiplies the point.

In theory, the base is higher, the generation is deeper, the rate will be bigger and the leader income is higher. In other words, the organization is bigger, the whole revenue is greater. However, whatever the commission system is, most of sales teams have less than 20 members, and few people

can get the leader commission to reach the top of pyramid.

The history of direct-selling industry follows the history of imitation and restructure of Amway' s commission system such as mix system, hierarchical system or dual system. Those systems are not dramatically different, so researching on Amway' s commission system is representation.

4.5.3.2 SUCCESSFUL REASONS FOR AMWAY (CHINA)' S COMMISSION SYSTEM

1. Incentive Goal from Low to High

First, Amway' s required sales revenue is from low to high and from easy to hard to avoid new comers loss confidence and to make experienced sales representatives have higher goal and reach higher revenue. Second, Amway set s series of targets and levels of career planning to make distributors know what their business path. The income for each target is definite. Third, Amway' s commission incentive system has two features: one is unlimited, namely, distributors can achieve whatever target they want without any above and below limitation. The other is the commission can be inherited, and will not automatically disappear after retire or death. Both of the two characteristics are unique and appealing to distributors.

2. Match with Maslow's hierarchy of needs

Amway not only satisfies distributors' desire for income but also supports their business and spirit. Amway gradually leads distributors from low demand to high demand; meanwhile, Amway gradually raises distributors' loyalty to business and make them involve in Amway' s culture. Finally distributors and Amway have the coherent value and become a stable sales team.

3. Lead to Achievement

First, instead of adopting the traditional commission method, basic salary plus float salary plus welfare salary, Amway only takes "float salary plus incentive salary. Amway holds the belief of cooperation but not employment to offer a fair chance for working hard people without stable salary. After succeed, the entrepreneur can enjoy the benefit. They are passionate and aggressive for their business and realistic as well.

Second, power need means a desire or drive for impact and control others. Amway hope each one to become qualified and respectful leaders through establishing a design of group commission and leader commission. Amway guides distributors to have right of leadership. Because the relation between distributors and their downlines is loosen, distributors need knowledge and personal charm to lead an outstanding sales team. In the meantime, their power need can be realized.

Finally, affinity needs is looking for other's love and acceptance, and those who want to be loved have to be cooperative but not competitive, sensitive to interpersonal skills, like to communicate and understand, and maintain harmonious ties with social relation. Those qualifications are required for Amway's distributors because they can realize personal goals at work as well as develop relation network.

4. Promise Business's Image and Unite Individuals

First, Amway totally respect individual personality of distributors, for instance, they can design their own operate method and goal under Amway's management rules. Chaos happen if what an formal organization asks is conflict with the experience background of individuals. That will cause individuals' short-term conflict of behavior and thoughts and not confident of their future. However, in the long term these conflicts will disappear because individuals can not change anything even if searching for other jobs.

Second, the level of rank imposes distributors' pressure. Nevertheless, the relations among Amway's distributors are help and cooperate with each other with respectful pin title instead of stick ranking because distributors can succeed only through helping others to reach success. Thus, they can compete with peaceful ties.

Third, most organizations give rewards as long as their employees do jobs well, and that will make employees only take care of details but ignore the whole entity. However, Amway's distributors concentrate on not only their own personal sales volumes but also the whole performance of company even the globe because they can share the revenue from the globe. In other words, the relation between overall performance and personal benefit is very tight.

Finally, many organizations strengthen the power of leading to coordinate the benefit conflict between the part and whole, but that will cause employees' reliance and subordinate. Amway's

distributors actually lead by themselves and no one can be relied, so that increases distributors' self-awareness and independence.

5. Natural Weed-out Mechanism

Amway' s commission system is positive intensification because distributors can get certain feedback after each deal. Amway uses bonus to encourage repeatedly selling behaviors. On the other hand, although there is no punishing condition in Amway' s system, actually there is negative intensified way. If distributors' sales revenue decline in the following fiscal year, the threat from downing to the lower rank will accompany by the distributors. At the same time, if a new comer doe not work hard to meet the least annual revenue required, Amway will not extend contract with the distributor. If the distributor still wants to run his business, he has to start from the beginning. By doing this negative incentive with natural kick-out system, Amway' s distributors will work hard.

4.6 COMPETITIVE ADVANTAGES ANALYSIS OF THE DIRECT-SELLING INDUSTRY IN CHINA

This section is doing to analyze structural competition in the direct-selling industry through the diamond model, then analyze competition within the direct-selling industry by the five forces model and the SWOT model, and finally analyze the competitive advantages within the direct-selling industry through the Blue Ocean strategy.

V. BUSINESS STRATEGY ANALYSIS OF THE DIRECT-SELLING INDUSTRY

5.1 COMPETITIVE BUSINESS STRATEGY ANALYSIS

5.1.1 USE DIAMOND MODEL TO ANALYZE COMPETITIVE ADVANTAGES IN THE DIRECT-SELLING INDUSTRY

Analyzing structural competition in the direct-selling industry through the diamond model (see Figure4-1), we can find that the four basic factors which affect structural competition in the direct-selling industry in China are relatively strong, so if working hard and gaining the incentives of subsidiary factors such as government and chance, then competition in the direct-selling industry will increase a lot.

1. Production Factors

The key factors of production of direct-selling products are advanced technique and cheap raw materials, and we can find Amway owns abundant resources and technique, and keeps expanding production place and researching modern technique. For example, the Nutrilite Health Experience Center in the production base in Amway (China) is the first experiencing center Amway (USA) builds abroad to reflect the whole processes of farming, processing, manufacturing and related technology of Nutrilite. In the research and development respect, Amway has 65 labs worldwide, hiring more than 570 professional technicians. Each day all of the labs conduct around 500 experiments, including product ingredient, evaluation, examination, manufacture process establishment and so on. Labs also communicate with colleges or other research units and institutes to notice the technological trend and market dynamics, actively absorbing all mature experience and technology. Furthermore, from the capital perspective, a direct-selling firm like Amway has more channels to retain more capital: direct-selling firms can gain more channels to fund through Initial Public Offering; due to no middle agents, direct-selling firms can avoid the risk of delaying product selling income to hold more cash flow in hand.

2. Demand Factors

As the level of Chinese income increases, people require better living quality. Hence, high-quality products are accepted by Chinese consumers. Because Amway (China) insists focusing on product quality and customers' needs, its product lines are extending to fulfill different customers' requirement.

3. Support from Related Business

Although Amway (China) have not united backwards completely, Amway already has the ability of uniting backwards in Nutrilite nutritious supplementary food. As the most important product brand, Nutrilite is famous for its natural ingredients. To ensure material quality, Amway has four organic farms in America, Mexico and Brazil to plant various noble plants as material for the worldwide market. These farms do not use chemical pesticide, herbicide and fertilizer. Amway has strict standard and clear requirement for suppliers, manufacturing environment, quality and quantity of material, and so forth.

4. Firm Strategy, Structure and Rivalry Competition

Product differentiation and variety reduce the competition within an industry. For instance, most of Amway's products are skin care or home utility items, so there are many competitors, most of which are international brand with full capital support and high-end technology. Nevertheless, Amway replaces traditional middle agents and wholesalers with retail stores to establish a higher barrier to existing and potential competitors in channels and pricing. In addition, Amway's marketing strategy transforms from traditional media advertisement to word of mouth of sales representatives; it not only helps customers understand, purchase and use products but also reduces Amway's homogeneity and competition in the industry.

In addition, Amway actively accustomed to Chinese culture to break tradition and successfully create a route for Amway's special business and product brand establishment. Instead of only relying on mouth of word, Amway (China) launched multi-channels to promote such as high-end theme TV commercials, variety of mass media and outdoor advertisement, and colorful market promotion plan. Those activities make brand spirit abundant and successfully shorten the distance between consumers.

5. Government

Since April 21, 1980, Chinese government has decided multi-level marketing, but the market chaos in society is still fierce. At that time most firms disappeared and withdrew the market, and some turned to operate underground. However, Amway faced difficulties with distributors, actively communicated with government and media, and transformed followed by Chinese regulation. Thus, Amway erect a solid foundation for development. As the new regulations erect and implement, Chinese government strictly enforces laws to beat illegal firms and develop Chinese cross companies and international well-known brand, and also offers a better environment for Amway to develop. In sum, Chinese government's protection for the industry is a strong political support for Amway.

6. Chance

As the consumer awareness strengthens, the new market chance is coming. For instance, Amway invests huge in Chinese social public welfare business to increase corporate social responsibility and social recognition. Meanwhile, as the rapid growth of economics, people's living

level rises, and their demand for product quality also increase. Personalized products satisfy different customers' needs, so Amway can make effort to research and develop differentiated products to fulfill different consumers' needs.

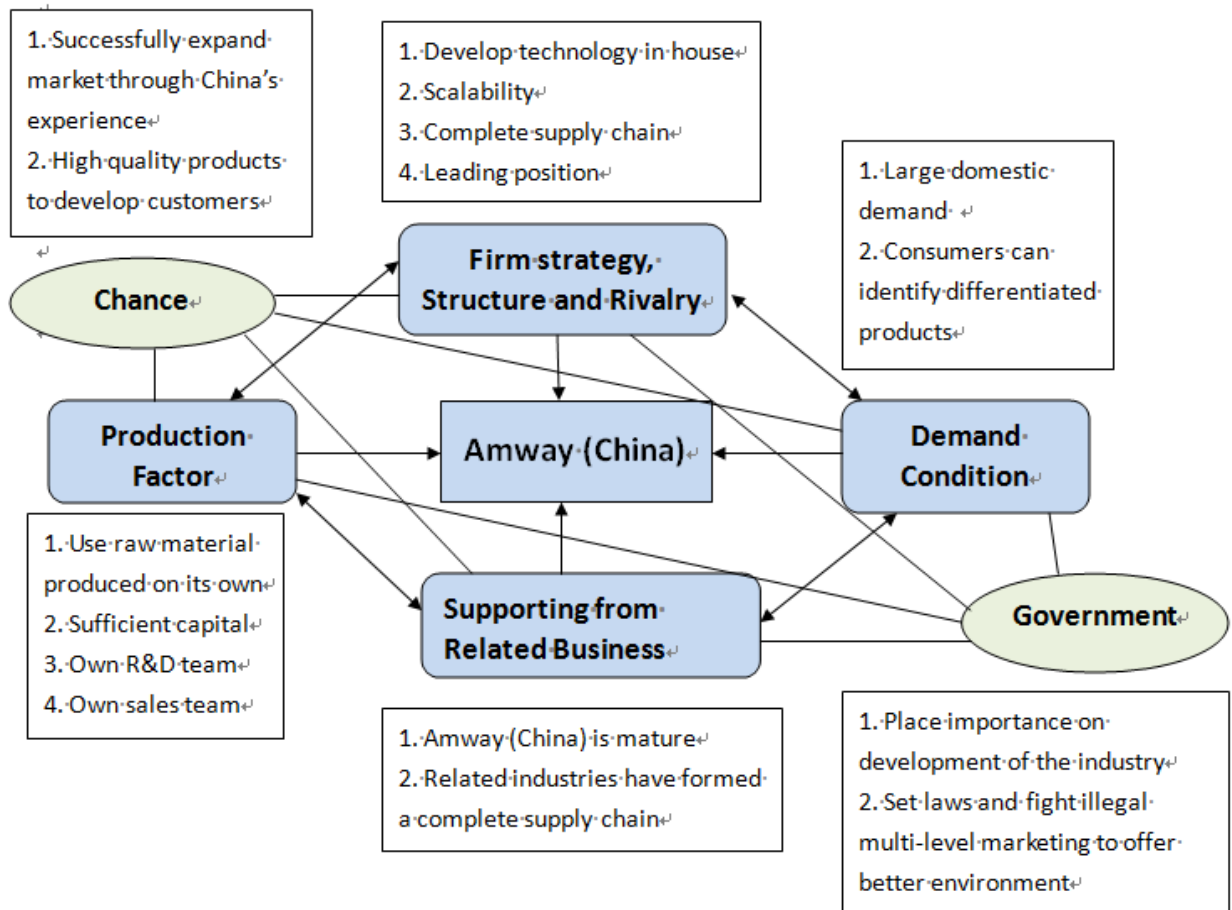


Figure 4-1 Use Diamond Model to Analyze Structural Competitive Advantages of the Direct-selling Industry

Resource: Organized by This Research

5.1.2 Five Forces Analysis for Chinese Direct-selling Industry

1. Existing Competitors within the Industry

There are 24 firms which already gained permission from Chinese government and can build service spots. Amway (China) always keeps its leading position, but other international business such as Avon, Marykay and Herbalife are actively improving to be competitive and threats to Amway:

(1) Avon

Avon is the earliest international direct-selling business to enter China, and invested in

USD\$2,795 to joint venture with Guangzhou cosmetics suppliers in 1990. In 2006, Avon gained the 1st direct-selling operation permission from Chinese government, and had advantages of integration of retailing and direct sales. Avon has 70 branches, more than 6,000 sales and service centers and more than 100,000 distributors in China. Its products include skin and hair care products, cosmetics, perfume, healthy food and fashionable cloths.

Among the big direct-selling firms, Avon's operation model is the most suited for related regulations of Chinese government, but its distribution channel conflicts lead to damaged benefit of current service centers, and also make Avon confused if transforming.

(2) Marykay

In 1994, Marykay (China) invested USD\$2,000 in Hangchow to build the 1st factory abroad. In April, Marykay registered as limited firm. In 2006, it invested USD\$0.2 billion to establish Asia and Pacific manufacturing center accounting for 720,000 square meter, 18 product lines and 180,000,000 items. Nowadays, Marykay's branches are spread around Chinese main provinces, including 0 product lines, more than 200 products such as skin care products, cosmetics, finger nail care, hair care, body wash, suntan lotion, and perfume and so on.

(3) Herbalife

In October 1998, Herbalife built production base in Suzhou, where is the only production base outside America. Herbalife's products contain more than 20 kinds such as various nutritious health care products, products for control weight and personal care products.

In sum, the reason why Amway (China) can be exceptional is its positive brand and reputation. Avon and Marykay focus on cosmetics and position women market; those may form threats to Amway's Artistry cosmetics. At the same time, Herbalife promotes nutritious supplementary food, and that covers Amway's basic market position and cause impact on Nutrilite products. Additionally, digging out outstanding distributors has become competitive focus. Therefore, Amway (China)'s leading position is challenged in several respects.

Therefore, the threat from existing competitors is strong.

2. Potential Competitors

Potential competitors are those new comers may enter this industry with new firms or various business strategies. The enter barrier and existing competitors are the keys when deciding if entering this industry.

According to the “Direct-selling management Rule” , new entrants must have at least registered capital of RMB80million. Moreover, before selling specific products in specific areas, firms need to apply for approval. Furthermore, in the approved areas, firms have to build at least service center. Finally, firms have to open an exclusive account in the designated bank by Chinese government to deposit RMB20million as guarantee fees. Those rules intend for promise business to operate under regulations in long-term. .

In addition, it takes quite long time and great effort for new entrants to understand the characteristics of the direct-selling industry and spread the distribution channels. Thus, the time cost is higher for potential competitors.

In short, the above-mentioned constrains new entrants from entering and forms a relatively close competitive environment of this industry.

Therefore, the threat from potential competitors is weak.

3. Bargaining Power of Suppliers

Suppliers influence current business’ s profitability and competitiveness through increasing input price and lowering unit price. One of the differences between the direct-selling industry and other industries is direct-selling firms own production, sales channels and customer service.

Therefore, the material of Nutrilite are natural and offered by Amway (America), and Amway (China) only can purchase materials of package and part of subsidiary products on its own. Because the local materials are highly substitute, local suppliers’ bargaining power is lower. On the contrary, even though Amway (China) accounts for nearly market share of Amway (America) and Amway (China) has privilege to get material support from Amway (America), Amway (China) has no power to bargain material price with Amway (America).

Therefore, the bargaining power of local supplier is weak; that of Mother Company is strong.

4. Bargaining Power of Buyers

Economic growth raises people's income and living level, and makes consumers care more about health. So the need for nutritious supplementary products gradually increases. In the high competitive daily-use product industry, the bargaining power is mainly from product quality, service and brand. Amway's target market is people with medium and high income, and consumer benefit positions high function, efficiency and quality. Consumers care more about brand and are less sensitive to price. Besides, due to the uniqueness of this industry, products are only sold through limited channels, and that also constrains the bargaining power of buyers.

Therefore, the bargaining power of buyers is weak.

5. Threat of Substitutes

Because most of Amway's products are daily-use products, so there are many substitutes in the market. Thus, Amway has to keep strengthening brand marketing and increasing consumer loyalty to resist the threats of substitutes. In addition, Amway focuses on not only product promotion but also service quality, so this can effectively reduce the threats of substitutes.

Therefore, the threat of substitutes is medium.

In sum, Amway is in a bigger potential market with higher barrier to enter, lower bargaining power of local suppliers, medium bargaining power of buyers, and medium threats of substitutes, so Amway is in a lasting competitive position. This research suggests Amway taking the following differentiated tactics shown on Table 4-3 to eliminate threats from outside.

Table 4-3 Evaluation for Amway's Competition

Five Forces	Current Status of Amway (China)	Suggestion for Differentiated Tactics
Existing Competitors	Leading position with potential threats from existing competitors	Increase consumer loyalty through brand marketing
Potential Competitors	Barrier to enter is high; high time cost; low potential threats	Solidify and deepen channels to raise enter barrier and gain market share
Bargaining Power of Suppliers	Price from headquarter is not controllable; low bargaining power of local suppliers	Appropriately transfer stress from the supplier to consumers
Bargaining Power of Consumers	Medium bargaining power of buyers; declining sensitive to price with increasing income	Improve product brand image and consumer benefit
Substitutes	High threats of product substitutes; low threats of service substitutes	Increase the level of promotion and service to raise consumer loyalty

Resource: Organized by This Research

5.1.3 Amway's SWOT Analysis in China

1. Strength Analysis

(1) Direct-selling leader

Amway (China) erects a good image of business through public welfare and green marketing. Meanwhile, it increases its brand name of business and helps maintain the leader position.

(2) High product awareness and reputation

Through continuously investing in research and development, strict requirement for product quality, and the concepts of environment and nature experienced in products,

Amway creates a product image of high quality, environment-friendly and natural. Meanwhile, Amway erects its brand through innovative sport and art marketing, and its brand awareness reaches to 87%. The market share of Nutrilite products keeps maintaining the number 1.

(3) Stable channels

Through clearly defining each channel's duty and responsibility to avoid possible benefit conflicts between channels. For instance, Retail stores are take charge of brand marketing, training and managing distributors; distributors are responsible for selling products.

(4) Strong research and development ability

Amway has 5 categories of products, 198 products, 97 labs, 65 research and quality examination centers, more than 570 professional technicians, and almost 1,000 patents.

2. Weakness Analysis

(1) Bad kid image

Compared to Avon's operation model which most suited for regulations for direct sales set by Chinese government, most people regard Amway (China) as a company running without illegal ways.

(2) Cutting-price phenomenon

Amway asks distributors to sell products according to the price on products, but cutting-price can be bought in current market. This is not fair for distributors who obey the company's policy, and will finally impact sales revenue of the entire company.

(3) High operation cost

In addition to 30% of sales teams' revenue, Amway needs to pay huge in brand marketing and 250 directly-owned stores. Moreover, Amway (China) has no right to bargain with Amway (America) in material price, its operation cost gets higher.

(4) Sales teams are hard to manage

Direct-selling firms usually have a giant, loosen and individually different sales team. It

is the biggest challenge for business to create, encourage, adjust and control the sales team.

3. Opportunity Analysis

(1) Chinese economic keeps steadily grow

As the economics keeps growing, the market purchasing power is increasing, and the total retail amount of social consume products will increase as well. Those will help expand market for nutritious food and daily-use products.

(2) Consumer conscious change

As the living level increases, consumer behavior is changing. People desire high-quality life and care more about health and beauty as well as environment and social welfare. Those will help form brand recognition and loyalty.

(3) Underdeveloped direct-selling market

Currently Amway only gets permission in 24 provinces, so there are 7 provinces left in China for Amway to explore, and those markets offer future development space

(4) Huge labor market

Direct-selling firms use great numbers of labors to develop its business and solve the unemployment problem as well.

(5) Internet rises

Because of pervasive Internet, more and more people gain information and buy goods though it. Dealing via the Internet lowers the cost, so many firms take e-commerce now. This also can reduce Amway' s training and operation cost.

(6) Technology improvement

Advanced technology promotes improvement of technical art and product variety and technology upgrade. For Amway with fill of capital and strong research ability, Amway has to grasp chances to win.

4. Threat Analysis

(1) Competition in the direct-selling industry is getting fierce

There are some Chinese local new firms taking similar strategies to Amway's, and offer similar products. So the homogenous phenomenon is getting serious.

(2) Market competition is becoming fierce

As the regulations continuously completed, consumer ability and rational degree increase, channel and brand competitions are fierce. Hence, Amway has to think about how to keep upgrading and maintaining the leading position.

5.1.4 BLUE OCEAN STRATEGY

As the Chinese income level continuous rises, people require more for daily product quality, so their spending on skin care products, health care products and home utilities has been increasing. Compare to other big firms' products, Amway's products have fewer quality problems. In addition, Amway offers one by one service to make customers experience the product quality, and to reach the experiencing marketing goal.

Because there are too many similar firms selling similar skin care products, customers' bargaining power is increasing. Therefore, to grasp the market share, what firms can do is satisfy the requirement of all channels by cutting price. That can not achieve the meaning of innovative business model and the Blue Ocean Strategy.

After entering China, Amway is continuously adjusting business strategy. Its marketing features are localization of research, management, human resource and economic revenue. Moreover, due to Amway's huge amount of investment and big differentiated products, its brand recognition is still high even if there are many illegal multi-level marketing cases in this industry. The competitors after Amway are not easy to enter the homogenous market, and because Amway has great research team and production base plus better marketing strategy, it is competitive. This fulfills the Blue Ocean Strategy and creates a total new market where no competitors.

The Blue Ocean Strategy is to create a market in which there is no competition. Developing this strategy is to lower cost and raise product value. Product value which customers get is from product benefit and selling price; product value which firms get is from product price and cost structure. Hence, only under the appropriate allocation of product benefit, selling price and cost structure, a

firm can acquire value innovation. This system which concentrates on whole activities can last the strategy because it unites all functional and executive activities to make value innovation an integrated strategy rather than pure “innovation”. To reach value innovation, a firm has to position to “leap forward” on both customer and firm value.

“Blue Ocean Strategy” can be initiated with 4 assumption principles and 2 execution principles:

4 assumption principles

1. Reconstruct Market Boundaries: Redefine the boundary of the industry from six approaches to go out of traditional thought and reduce search risks.
2. Focus on the Big Picture , Not the Number: Strategy should come from vision to avoid being in the game of numbers, and to reduce planning risks.
3. Reach beyond Existing Demand: Pay attention to divide the differentiation of customers, trying to find out the common part between firms and non-customers to expand new demand and market, and to reduce risks.
4. Get the Strategic Sequence Right: Put the buyers’ benefit into top priority, set up target product based on pricing strategy, and figure out the hints due to force of strategy to solve the risks from business model.

2 execution principles

1. Overcome Key Organization Hurdles: Use “Tipping point leadership” to overcome key obstacles. There are some people, behavior and activities have asymmetry influence on the performance of each organization. Therefore leaders should find out the key factor and make good use of it to overcome the hurdles.
2. Build Execution into Strategy: Because of the difference between the Blue Ocean Strategy and the traditional competition strategy, there are inevitable blocks when pushing the former strategy. Thus, use fair programs to make members work proactively with sense of responsibility and help implementation of strategy with small management risks.

Under the multi-level marketing channel rather than traditional layers of channels, Amway can touch more potential customers due to different customer base and change of customer behavior.

Selling through retail stores is an innovative business model in the multi-level direct-selling industry; however, this may lead to strike on sales representatives. Firms attempt to apply retailing to approach more potential customers, but this threatens potential revenue of sales representatives. Thus, firms must understand how to deal with this conflict between channels in the entire distribution system.

In the direct-selling industry, the relation between firms and sales representatives is not employer and employee, but supplier and distributor. Sales representative can have their own organization to be the leaders or bosses, and their tasks are to make their downsides to be the bosses as well. No matter who are upsides or downsides, they buy products from Amway at the same price. In fact, Amway's customers are Amway's products sellers. There are two types of sales representatives. Both of the types are continuously consuming their own products. The first type is those who need products, and share their experience with others. Only if you experience products and share your experience with others, others will trust you and buy your products. The experiencing process is the process of using products and become product lovers. How can you become product lovers? Replace other brand products with your own direct-selling products and share your using experience with others.

The second type is those who want to engage in the direct-selling business and display products. The basic two skills that Amway's sales representatives have to know are lecturing and product displaying, also called magic tools to search for partners. The goal of lecturing is let listeners know the strengths of products, and then make them try and compare products through displaying. By doing so, potential customers can confirm the functions of Amway's environmentally friendly, stimulate and convenient products.

Therefore, Amway's multi-level direct-selling channel is the appearance the Blue Ocean Strategy. Besides, Amway's position is different from traditional direct-selling firms because it combines various marketing channels. From the motivation perspective, in addition to sales addition, cross-channels means including consultation service, modification of promotion and marketing strategy, easy for sales representatives to take products and communication, and so on. Hence, most direct-selling industry related literature think it is an inevitable trend to combine physical stores. Firms can take advantage of exhibition center and design experiencing activities in the physical

stores to leave customers stronger impression. However, keeping maintaining relation between firms and sales representatives is also must.

5.1.5 PRODUCT COMPETITION BUSINESS STRATEGY

Products are combination of products and service which firms provide for target market, including product effectiveness, quality, appearance, types, packages, specification, brand, service and guarantee, and so on. Amway's daily use products are repetitive and frequently consuming, and that forms continuous chain consuming behavior. Meanwhile, the connected increase of good products brings about companies' growth, and various products make Amway effectively expand.

5.1.5.1 AMWAY'S PRODUCT LINE

Amway (China)'s product lines mainly covers nutritious health care food, personal and house care products, and beauty and cosmetics. They are all in high quality, so Amway can maintain quality leading advantage.

1. NUTRITIOUS HEALTH CARE FOOD

Nutrilite nutritious health care products offer people protein, vitamin, and minerals to adjust functions in body and compensate inefficiency of nutrition from dining, and to achieve health. Currently Nutrilite nutritious health care products are divided into 3 series of nutritious supplementary food, functional food and children nutritious food. All producing farms use advanced biological and technological process which is no damage to plants and human to control herbs and insects instead of chemical pesticides and herbicides. For instance, to protect soil not be oil-polluted, Amway's farms cultivate Egypt earthworms and use their vertical drilling abilities to loosen the soil rather than loosen the soil by machinery

2. PERSONAL AND HOUSE CARE UTILITIES

Amway's personal care products can be separated into 4 series of body washing, hair conditioner, mouth care and anti-bacteria hand washing. House caring products are divided into house cleaning, clothes washing and peripheral products. Amway add environmentally-friendly concept to products. For instance, surfactant put into house care utilities have biodegradability and can dissolve carbon dioxide and water to make them not deposit under rivers. Amway also applies hydrocarbon, which

does not destroy the ozonosphere, into spray products as propellants. Similarly, no-phosphorous formula does not stimulate growth of plants and protect nature environment in the water.

3. BEAUTY AND COSMETICS

Amway's beauty and cosmetics series is divided into Artistry skin care products and makeup products. To ensure function, safety and reliance, products have to be under tests such as skin, allergy, sensitivity, ophthalmology and contact lenses using tests. In the meanwhile, there are many ingredients and formula approved by patents, such as moisturizer, whitening compound ingredients, Qua-Alpha Hydroxy Acid essence, and so forth.

5.1.5.2 AMWAY'S PRODUCT BRAND

Brand is a name, term, mark, symbol, design or complexity of them. The goal of brand is to recognize a seller's product or service and distinguish it from other competitors.

1. SINGLE BRAND STRATEGY

The main strategy of single brand management is brand expanding. When encountering one brand, people have same reaction to its new products as old products. Because new products associated with the famous and reliable brand name, it is easy for customers to accept the new products.

Amway's Nutrilite nutritious health care food applies single brand strategy, containing vitamin C, natural vitamin B group, calcium tablet, magnesium tablet and so on, and keeps a high quality image. Additionally, there is sufficient connection between old and new products, so new products strengthen the brand position. Amway's reasonable brand expansion acquires success in market.

2. MULTI-BRAND STRATEGY

Multi-brand strategy is a firm owns at least two brands because the firm would like to consider and satisfy different customers' needs and to make customers different stimulation and recognition. Amway's beauty and cosmetics belong to this strategy.

5.1.6 CHANNEL COMPETITION BUSINESS STRATEGY

Amway (China) transformed in 1998 and adopted "both retail store and sales representatives" business strategy. This model actually maintains Amway's core competence—direct-selling; however,

this model has more advantages than other direct-selling firms.

First, people and stores are both distribution channels, which can maximize customer base, and stably increase in customer numbers raises Amway's revenue steadily as well as lead to Amway's competence growth. Because both channels have no establishment and research expense and the learning cost is owed by sales representatives themselves, Amway has no account receivable and bad debt. Meanwhile, one of the channels, sales representatives, is also loyal customers to Amway. In order to achieve sales targets, they need to use many products to understand products and then they can transform product benefits into customer benefits.

Second, this business model requires building stores in each area, and this way is good for Amway's social public image of honest operation. Store with full of inventories are also become great display center, and it increases potential customers' cognition and identity of Amway's brand in local areas.

Third, due to inefficient domestic logistics, customers often can not accept goods on time and that lower their satisfaction. Nevertheless, the increase of retail stores guarantees reasonable inventories and can offer customers products in time. By doing so, customer base keeps expanding and Amway's brand awareness and reputation have grown up.

Finally, Amway's retail stores become communication platforms for sales representatives. Since good marketing theories and practical skills are spread through those platforms, they dramatically raise sales skills and communication ability of sales representatives as well as stabilize loyalty of sales teams. Sales representatives gain more training opportunities, and their service quality will improve as well. Sales representatives, representing a firm' image, help increase the firm's reputation.

5.1.7 PRICE COMPETITION BUSINESS STRATEGY

Amway has two pricing strategies: customer price and sales representative price. The former is the fill price of product. The latter is 80% of customer price, and the rest 20% is sales representative's revenue.

The article 20 of the "Regulation on Direct Selling Administration" said "Direct selling

enterprise shall at least pay the distributor by month. Payment to the distributor including the commission, bonus and other kinds of benefits, shall be calculated only based his own sales, and may not exceed 30% percent of the sales of the products to consumers”.

Amway’s previous commission system included 20% customer service revenue plus monthly sales commission, from 3% to 24%. Because of the regulation, in October 2005, Amway canceled the original 20% customer service revenue and increased monthly sales commission, from 6% to 27%. Amway’s pricing strategy is “taking the enterprise as the body and centering on the products”, in other words, considering at what price our firm can balance the cost and earn the expected revenue. This pricing strategy adjustment was to compliance the regulation instead of increasing satisfaction of end users.

5.1.8 PROMOTION COMPETITION BUSINESS STRATEGY

Promotion means holding different activities, such as advertisement, sales promotion, public relation, personal promotion, to make customers understand product information and raise their desires for purchasing.

1. PEOPLE PROMOTION

Amway is responsible for the periodical training for the sales representatives. In addition, Amway invites professionals to lecture marketing related information. All of the training about product knowledge and sales skills offered by Amway has direct influence on sales representatives’ capabilities. Amway has suitable courses for them at each stage, and the training is customized based on their nationality but the basic principle is unified. For instance, Amway requires each sales representative get familiar with products, know how to display, and has courage to express himself, and then make all sales representatives learn basic selling skills to improve communication with potential consumers.

Amway now has 10 big training organizations in the globe normally co-founded by successful Amway sales representatives to take charge of training courses. Nevertheless, since these training organizations lack a complete systematic teaching network, there seems no unified evaluation standards about basic capacity, values, belief and while product knowledge for junior sales

representatives. Therefore, sales representatives who are not qualified, frequently shift or only care about benefits cause damages to some customers relied on their products and service. Moreover, those sales representatives make Amway's reputation lose greatly.

2. ADVERTISEMENT

In 2003, Amway Nutrilite aired "own health, own future" brand advertisement to express good comments on products, and "10 km healthy running" activity announcement advertisement to promote business image. Both of them are not related to the functions of products.

Amway's annual advertisement expense accounts for 1.5% sales revenue, and this strategy is different from that in other countries. In other countries, word of mouth marketing from sales representatives is more significant than advertisement. However, Chinese customers believe advertisement and are willing to buy products displayed in public. Thus, Amway put on more advertisement in China than in other countries.

3. PRODUCT DEMONSTRATION

Many direct-selling firms' products are good but can not be demonstrated publicly. On the contrary, Amway's products can be exemplified in public.

5.2 ENTIRE BUSINESS STRATEGY ANALYSIS

5.2.1 OFFER DISTRIBUTORS COMPLETE SUPPORTING SERVICE

When direct-selling firms proceed with resource prediction and demand planning for sales representatives to react to the market change, Amway uses sub-systems including the coordination and integration of planning, recruiting, training, evaluation and salary of human resource management system to become the key resource of maintaining lasting competitive advantage.

Sales representatives are not employees of direct-selling firms because firms restrain them only based on contract, and the turnover rate is high in this industry, especially in the loosen organization like direct-selling firms. People's loyalty and turnover rate have great influence on the operation of the company. Therefore, direct-selling firms indirectly complete their long term human resources planning by helping sales representatives develop their business.

Helping sales representatives develop business is the basic function firms can offer sales representatives. Firms can provide multi-functional places, order service, chances of joining public activities and after sales service for sales representatives.

In addition, Amway make new participants understand 5 principles, which are participation method, knowing Amway, recommendation system, training program and promotion rules. Furthermore, Amway also offers sales representatives 4 platforms to help them develop their business. The 1st one is communication platform. Sales representatives can make use of distributor conferences including big annual award ceremony, Amway business workshop, product presentation, distributor communication meeting and customer helpdesk to deliver their opinions. The 2nd one is training platform. It designs different training programs to different pin level of distributors. The training contains functions of teaching, communication and recognition to improve their capabilities of running business and planning career life. Amway establishes academy in 2007, offering compulsory, elective and physical courses to different pin levels of sales representatives. The 3rd one is knowledge learning platform such as database on the public website, including homepage, products windows, audio and visual, Amway theme exhibition, online download material of product training, and distributor only area. The platform shares and spreads knowledge through training, meetings, workshops, journals and website. The 4th one is a platform for business opportunities. Through complete experiencing, sales representatives can correctly understand Amway's products and business opportunities without exaggeration, improve their professional images and management capability. Those abilities help sales representatives convince customers and offer them better service.

Amway has a full training program, organization, commission and bonus system, promotion and demonstration method, advertisement, public relation, and so on to help sales representatives successfully display features of products in front of customers accompanying various changes of environment.

The main marketing force is word of mouth in the direct-selling industry, hence, firms' exceptional performance of logistics supports make sales representatives have complete backbone to develop their business.

5.2.2 IMPLEMENT AND STANDARDIZE THE CONCEPT OF EXPERIENCE

The main function of physical channels is to serve customers, offer various interactive resource and logistic support and deliver image. Pine & Gilmore (1999) regarded customer experiencing as an economic products. They held that experiencing occurs in the organization, intending to use service as a dancing stage and products as props and tools to surround consumers to create activities consumers recall. Products are visible; service is invisible; experiencing creation is unforgettable. Product and service are external to consumers, but experiencing is internal, gain from emotion, knowledge and spirit. When interacting with potential consumers, if sellers can make them have unforgettable and unique feelings or make them feel like VIPs, and emphasize whole experience through consumers' senses, and experience of affections to appear a marketing of life style and an activity recognized by society, the potential consumers will become clients.

Many direct-selling firms are using physical channels to build experiencing platforms to implement the experiencing concept raised by Schmitt. They hope customers to be stimulated and motivated to agree to their products and then buy the products. It will increase product value and avoid depreciation of brand and product value after entering physical stores.

Regarding the connection between experiencing in physical stores and consumer purchasing behavior, Chien-Jung Huang and Tai E (2007) concluded that the better experiences in senses, emotion, thinking and action a sale representative has, the stronger belief the sales representative has in the direct-selling firm, and is more willing to continuously buying products and accepting service, and actively do word of mouth marketing. The research result also shows direct-selling firms make sales representatives generate affection toward the firms and brands through offering them feelings of happiness, excitement, beauty and satisfaction. That also encourages sales representatives to re-evaluate products. With the products, atmosphere and stimulus in the display centers, sales representatives also can understand longer life style and customers' related experiences to associate with themselves, ideal selves, others and culture, and generate sense of recognition and belongingness of he brand. Those consuming experiences will keep strengthen the trust consumer have in firms.

Amway implement the experiencing concept through the whole marketing and sales process. Amway focus on the service before customers buy products, and it is Amway's technique core. In addition, sales representatives concentrate on the experiencing service, and this are key moment for consumers to buy products. Thus, sales representatives shall obey a series order of behaviors through learning, training and communication with others. This forms elements of theater theory, the standard of operation of experiencing areas such as "Amway's big events in chronological order", "Successful distributors list" and "Product and life showcase" becomes the best scenes for distributors to introduce product and business. Moreover, "Product selection area" and the "R&J cafe" are the properties and tools for distributors to randomly use. In other words, distributors in the drama are leading characters; assistants in the experiencing area are supporting roles. After customers buy products, the after sales service which distributors offer are the key factors of creating satisfaction and long term relation due to the completion of the upside and downside relation.

In order to ensure the service quality of the experiencing areas, Amway adopts directly-owned management. Except for the logistics and customer service about visiting, Amway duplicates the operation of the experiencing areas and promotes them to each province of China. Under this whole-controlling operation model for experiencing areas, Amway can request employees in these areas to offer better service to represent Amway's entire brand image.

VI. CONCLUSION AND SUGGESTION

6.1 Research Results

6.1.1 AMWAY'S COMPETITIVE ADVANTAGES ARE CLEAR, BUT STILL HAS POTENTIAL THREATS

Amway quickly entered Chinese direct-selling market, gaining the first-mover advantage, pushing ahead the development of industry, keeping high-end technology, acquiring strategic-value resources, creating customers' transfer cost, and realizing the strategic goal of seizing the large market share. Amway's differentiated products are one of the key elements of innovative marketing strategy, and this differentiation strategy forms customers' cognitive value which is hard to change,

winning competitive advantages. Through the SWOT analysis, we find that Amway (China) has stronger advantages on product technology, market position, financial capability, informationized logistics and e-commerce, and human resource management. Hence, Amway's absolute advantages are as follows:

(1) Multi-channel management:

Amway has the ownership right of stores when building physical channels. Additionally, the function of the stores is to convince sales representatives and assist them to develop their business. This way can resolve their consideration and conflicts with the stores.

(2) Ability of product technologic innovation:

Amway maintains the top position in the direct-selling industry and keep investing hugely on R&D to make products innovative and acquire customers' recognition.

(3) Omni-bearing customer service:

Amway offers one by one service teams to deal with problems on after sales and customer use. This model is difficult for competitors to copy.

(4) Product quality ahead of others:

Amway concentrates on product quality and integrates the best production facilities, technical art, and technology with strict management in the big production base in Guangzhou to elaborate each knob in the whole manufacturing process, and that produces exceptional products. Meanwhile, based on the different consuming behavior and using habits of customers in different areas of China, Amway actively develops localized research to satisfy their unique needs and introduces more suitable products.

(5) Humanized incentive system:

This is the most special and important of Amway's advantages. Following by the incentive system of Amway (America) and combining Chinese culture into it to create the humanized encouraging mechanism, ensuring loyalty of sales representatives and realizing the giant goal of globalized market strategy.

Nevertheless, Amway's main weakness is product price is relatively high along with staying in the fiercely competitive industry. Moreover, Chinese regulations about direct-selling is frequently

modified, one of Amway's core competences, commission system, sometimes needs to be modified accordingly.

6.1.2 AMWAY NEEDS TO PROMOTE COMPETITIVE AND ENTIRE BUSINESS STRATEGY

The lasting competitive advantages of the direct-selling industry are the following: 1. High-end technology; 2. Being the first-mover to grasp strategic value resources; 3. Creating higher customers' transfer cost; 4. Multi-level direct-selling marketing; 5. Product differentiation. From the macro economics perspective, China has big market of the direct-selling industry, and Amway (China) maintains the top position and lasting competitive advantages, so we conclude competitive business strategy and entire business strategy.

Competitive strategies emphasize the strategy of keeping product quality and strengthen research ability, developing differentiated products. For example, continuously adjusting product price increases customers' satisfaction; appropriately handle conflicts between channels and inventories to fulfill customers' requirement in time; enhancing promotion training toward sales representatives to raise their marketing and sales abilities.

Entire business strategies emphasize that direct-selling firms need to have a complete set of training program, organization, commission system, promotion methods, advertisement, public relation and sales promotion to help sales representatives react to the changing environment and successfully demonstrate products in front of customers. Namely, the supporting sections of firms are backbones to the sales representatives. In addition, sales representatives' volunteering service is kind of the extended function of physical channels, offering customer service, many activities and passing along the brand image.

6.2 Conclusion

6.2.1 Amway's Art of Managing Distribution Channels

Now suppliers and distributors have lower mutual trust in China. Many distributors terminate contract or cooperation due to various factors, and that leads to chaos of distribution network, high cost of channel, and continuous channel disputes. Generally speaking, these conflicts can be

alleviated through distribution channel design and management. However, the interaction between channels is changing and uncertain, and it may cause unpredictable conflicts, so Amway has to continuously engage in coordination and management of channels to make them health and grow.

6.2.2 Direct-selling Relation Network Expansion Mechanism of Amway

The feature of Amway's direct-selling relation network is utilitarian, and its commission system and the motivation of participating Amway prove the feature of utilitarianism, and that is Amway's direct-selling relation network expansion mechanism. If considering economic benefit in the marketing process, there would be two effects. On the one hand, utilitarianism may damage part of benefits in small groups to some degree; on the other hand, because utilitarianism is based on "win-win" relation, it also solid the ties of direct-selling network. In China, ties of blood is the key of relation group, and doing direct-selling with acquaintances through the "win-win" relation will strengthen and deepen the relation network. Hence, Amway's relation network is a very strong relation community.

6.3 Research Constraints and Suggestions for Future Research

6.3.1 Research Constraints

Nowadays the direct-selling industry in China is still developing, but there are few literatures can be referred because this industry is rather young. Actually, Chinese government announced open policy recently. However, Amway's development in China is more successful and related research is more mature as well, but still not completed in theories.

6.3.2 Suggestions for Future Research

This research is exploration research, putting Amway as the case study company and adopting static analysis with second-hand data and information, so lacks proof from empirical data. Hence, the conclusion may not be that objective, but could be a research direction to the followers. In addition, this research does not really research the connections among dimensions of an aspect, so the followers can research on some dimensions of a specific aspect of the direct-selling industry to find out new conclusions. Furthermore, this research describes the industrial phenomena with second-hand data, so the followers can do sampling and quantitative research with statistics analysis to improve the objectiveness of this research conclusion.

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