

NEWS

Metro

National

World

Business

Sport

Front Page

District

Only In China

PDF Files

OPINION

Perspectives

Word On Street

Editor's Desk

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Newspaper Edition

Amway gets into shape to comply with new policy

Wong Yee Fong

2005-10-26 Beijing Time

AMWAY, a United States-based giant manufacturer of healthcare, cosmetic and household products, will flatten its direct sales structure in China in light of regulations aimed at opening the direct selling sector which will take effect in December.

From November 1, all Amway China sales representatives will draw commissions directly from the company based on their individual sales performance.

Sales teams, in which authorized agents can generate additional commission from sales representatives they recruit, will no longer exist as payment based on team sales is illegal under the new regulations released in September this year.

China had promised to open the direct sales market by the end of last year prior to joining the World Trade Organization.

It banned direct selling in 1998, mainly to crack down on domestic pyramid schemes, forcing direct sellers to rely on retail outlets, but irregularities abound.

The new regulations allow any enterprise holding a direct selling permit to sell goods and services with no need to establish stores.

The scrapping of the ban on direct sales will also give other door-to-door retailers such as Avon Products Inc wider market access in the world's most populous nation.

Amway China will reduce its prices by 20 percent and adjust its commission structure to ensure that its sales representatives collect sales commission of no more than 30 percent, a rule stipulated in the regulations.

Sales commission will also be increased to between 9 to 30 percent, up from 3 to 21 percent. Sales representatives currently earn a sales commission, in addition to a customer service fee, which is 20 percent of the full-price of the products, according to a spokesman from Amway China.

The company said in a press release issued on Sunday, "As sales representatives already enjoy a 20 percent discount from our products, which they would usually pass on to consumers, a 20 percent price reduction would standardize our products. The company has also in effect removed the customer service fee, to the benefit of consumers."

Industry analysts said that the move will have little impact on individual sales representatives but is likely to affect the company's revenue.

The role of authorized agents, which until now has been focusing on leading and training sales staff, will eventually be re-designated to concentrate on brand-building, marketing and customer service, according to media reports.

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The 46-year-old company, which prides itself as a global leader in multilevel marketing, entered China in 1992 and now employs 800,000 people, including 180,000 sale representatives.

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