

Thinking pink in China

Mary Kay's products — and her story — are embraced by millions, making the country the company's No. 2 market despite limits on direct sales

By KATHERINE YUNG
Staff Writer

SHANGHAI, China — Nervous and excited, Hao Xiaojuan flashes a warm smile as she enters a room full of young women, most wearing purple jackets and skirts and satiny pink blouses.

Everyone applauds as they survey her new black St. John suit with its high collar and gold and black bumblebee buttons.

The suit says it all. This slim 40-

THE CHINA CONNECTION

China, Texas and the Economy

year-old woman with cropped brown hair has reached the pinnacle of Mary Kay Inc.'s sales force as its newest national sales distributor.

"You are now a role model, just like Mary Kay," she reads aloud from a congratulatory letter from Tom Whatley, president of global sales and marketing for the Addison-based company.

Four years after the death of Mary Kay Ash, nearly 350,000 Chinese women are emulating the Dallas icon, some earning big money selling TimeWise cleansers and facial whitening masks.

In every province, they're reading her books, which have been translated into Chinese, and singing her songs, like "That Mary Kay Enthusiasm," in Mandarin.

This fall, a few began driving her car, a pink Cadillac.

A decade after Mary Kay entered the country, China represents its second-largest market, even though a 1998 ban on direct sales threatened to ruin the venture. Within 10 years, executives predict, this Asian giant could surpass the United States to be the No. 1 market.

The direct seller of skin care and cosmetics owes much of its success to an amazing marketing feat.

In a nation still coming to terms with the legacy of Mao Zedong and his communist teachings, Mary Kay has gotten Chinese women to identify with a Caucasian cosmetics mogul with big hair.



RYAN PYLE/Special Contributor

Hao Xiaojuan arrives at the Mary Kay offices in Shanghai for a ceremony elevating her to a national sales distributor, for which she will change into a more powerful suit.

Photos of the business legend are plastered everywhere — on the covers of books and marketing brochures and on the walls of the company's offices.

"I understand how Mary Kay felt when she was establishing her company," said 36-year-old Zhao Yinghong, a Mary Kay executive distributor in Zhengzhou, a city of 6 million northwest of Shanghai.

In 1998, she quit her job in the local tax bureau and ordered a Mary Kay training video from Texas. Using the video, she began practicing beauty classes at home.

Now, she's three months away from joining Mrs. Hao as a national sales distributor, a level reached by only 30 other Chinese women.

Though Mrs. Ash never visited China, thousands of Chinese women know the story of how she overcame poverty, a tough childhood, on-the-job gender discrimination, divorce and widowhood to build a nearly \$2 billion-a-year company from an initial investment of only \$5,000.

The women are even more impressed by the way she lived her life, from putting God and family ahead of her career to practicing the Golden Rule.

This kind of connection is helping Mary Kay rapidly expand its sales force. And it's transforming this army of Chinese women into entrepreneurs, in a country where private enterprise is a relatively recent phenomenon.

This was the concluding story for a year-long series about the many ways China is reshaping Texas' economic landscape. Mary Kay Inc.'s headquarters are located in the Dallas area. This story appeared in more than 18 newspapers around the country. The series was a finalist for the Institute on Political Journalism's 2006 Excellence in Economic Journalism Award.

Business is booming

Like thousands of U.S. companies, Mary Kay is counting on China to drive its future sales growth. By 2009 or 2010, half of Mary Kay's total sales is expected to come from outside the U.S., up from 35 percent today.

In China, the company's business is booming, with 50 percent annual sales growth over the last two years. Already, Mary Kay China boasts a sales force almost half the size of the one in the U.S., where 700,000 women sell Mary Kay products.

China holds so much potential that executives at the private, family-owned company have set their sights on an ambitious goal: earning \$1 billion in annual sales. It's already almost halfway there.

Mary Kay has been making money in China since 2001, and the country ranks as one of its most profitable markets, said Paul Mak, Mary Kay China's president.

The 47-year-old chemical engineering major with glasses and thinning black hair seems a bit out of place amid the pink and gray cubicles at Mary Kay China's main office in Shanghai. But he understands why Chinese women can relate to Mrs. Ash.

"She's a woman. She's gone through some struggles. She became successful," he said. "It's almost like a sisterhood."

Mary Kay entered China in 1995 with the goal of transferring its culture to a land where many older women, after years of restrictions under communist rule, don't wear makeup.

A vibrant and unique blend of Christian values and enlightened management, the culture is intended to embody the spirit of Mrs. Ash. Executives credit the culture, more than anything, for their success.

The business started in China with seven employees, crammed into a small room in the business center of Shanghai's Portman Ritz-Carlton Hotel, recalled K.K. Chua, Mary Kay China's first president, who now oversees the Asia-Pacific region.

Any skin care or cosmetics products sold in China must be made in the country. So Mary Kay leased two floors of a six-story factory in an industrial park in Hangzhou, a two-hour drive southwest of Shanghai.

Then it advertised openings for beauty consultants, Mary Kay's entry-level sales position. The company

received 2,000 applications. It narrowed the list to 800 women, then 200, and finally hired 22.

After three weeks of training, the new consultants went out into the streets of Shanghai, a city of 20 million. Mary Kay repeated the process in Hangzhou and Beijing.

One of the new recruits that year was Mrs. Hao, the future national sales distributor. At the time, she worked for a lamp company in Shanghai, after jobs as an English teacher and a foreign trade clerk. Though she had never heard of Mary Kay, she accepted a colleague's invitation to one of the company's beauty classes. Perhaps it could help with her acne, she thought.

In China, these skin care and makeup sessions are held in offices rather than private homes. Most Chinese live in small houses or apartments and don't feel comfortable inviting in strangers.

At the class, Mrs. Hao learned about the company's culture. She became captivated by the Horatio Alger-like story of the American woman who looked like a kindly grandmother.

Even though she was earning only \$123 a month, Mrs. Hao was single at the time and had saved enough to spend \$556 on her first order of Mary Kay products. She began holding 10 beauty classes a week in her spare time. When she went to work full time for Mary Kay, she increased her schedule to 15 to 18 classes a week.

A year later, she rose to the sales director position. But she missed her parents, who lived north of Shanghai in Dalian, a seaport with 5.2 million people on the southern end of Liaodong Peninsula. So she

returned there in 1997, even though Dalian didn't have a Mary Kay branch office or a distribution center at the time.

A few times a month, she rode a bus six hours each way to Shenyang, north of Dalian, to pick up the cleansers, moisturizers and masks she had ordered. Slowly and steadily, Mrs. Hao built a network of customers and recruits.

Direct-selling ban

Then, in March 1998, she suddenly seemed in danger of losing it all.

That month, the Chinese government banned direct selling, in response to fly-by-night companies that had set up pyramid schemes and other scams, cheating unsuspecting victims of their life savings.

Mary Kay China's business skidded to a halt. At the time, the company had 200 employees and a sales force of 11,000 women.

Determined to stay the course, Mr. Mak, who had been Mary Kay China's president for only two months, asked executives in Addison for two things: a letter expressing the company's commitment to the market and a large amount of cash. He worried that most beauty consultants would return their products and ask for their money back.

That never happened. And executives in Addison didn't lose faith in China, sending both the letter and the cash.

For the next six months, Mary Kay China suspended its operations. Although it had bought land near its factory to build a new plant, those plans were put on hold.

Meanwhile, nearly all of Mrs. Hao's colleagues on the Mary Kay



RYAN PYLE/Special Contributor

Texan Mary Kay Ash, with her cloud of blond hair, smiles over the company's offices in Shanghai, China.



Paul Mak, president of Mary Kay China, said he understands why Chinese women can relate to the Mary Kay Ash story. "She's a woman. She's gone through some struggles. She became successful," he said. "It's almost like a sisterhood."

sales force had left. Her parents urged her to leave, too. She agonized over the decision for three days.

"That was truly a difficult time for me," she recalled. "I thought about whether Mary Kay was a good company or not."

But deep down, she believed Mary Kay would survive. If its culture stayed the same, then she needn't worry about temporary obstacles, she told herself.

Without any model to follow, a team of Mary Kay China employees took three months to come up with a new business plan, a kind of hybrid between a direct sales operation and a traditional distributorship.

In September, Mary Kay China reopened its doors, having obtained government approval and licensing. Though the company needed to rebuild its sales force, none of its employees had left.

In Dalian, Mrs. Hao restarted her business in a rented office in the city's downtown. Under the new rules, she became a distributor, not a director. Instead of earning a commission based on a percentage of her recruits' sales, she would now earn a fee from Mary Kay based on the sales at the beauty classes in her workshop.

The beauty consultants she recruited became sales promoters, not independent sales agents. They receive commissions based on their sales. But unlike in the U.S., they don't own the products.

The changes also brought a new Mary Kay branch office to Dalian. Mrs. Hao no longer had to travel six hours to Shenyang. The government now required branch offices

wherever the company's products were sold.

However, not long afterward, the Industrial and Commercial Bureau, a government agency, told Mrs. Hao that she couldn't work with Mary Kay's beauty consultants anymore. Once again, many of her colleagues left.

With her business in jeopardy, she met with the agency's representatives, explaining to them that she wasn't violating the ban on direct selling.

After more meetings, they finally agreed with her, and she reopened her workshop.

\$18 million factory

Mrs. Hao went on to prosper despite the ban, and so did Mary Kay.

Next spring, the company plans to open an \$18 million factory on the land it bought eight years ago. It's running out of room at its current plant, which seven days a week, 24 hours a day churns out millions of tubes and bottles of TimeWise Day Solution, Silk Plus Eye Cream and Formula 1 Moisture Rich Mask.

The new factory will be four times larger than the current plant. It will feature a second-floor walkway so the thousands of beauty consultants expected to tour the facility each year can easily peer down at the production lines below.

The building will also contain a small museum with some Mary Kay memorabilia from Texas and an "On Silver Wings" statue like the one in the lobby of the company's Addison headquarters. "On Silver Wings" is the poem that Mrs. Ash often used to conclude her speeches.

Although Mary Kay works diligently to instill its culture among its China employees, the company has made some adjustments.

In a country lacking religious freedom, Mrs. Ash's mantra — "God first, family second and career third" — became "Faith first, family second and career third." "Principle" is often used instead of "faith." And unlike in the U.S., prayers are absent from large company gatherings.

The company also discovered it needed to broaden the appeal of its culture. In addition to Mrs. Ash's principles, such as her belief in the beautiful potential inside each and every human being, it added Stephen Covey's *The 7 Habits of Highly Effective People* to its employee training seminars starting in 2000.

But one of its biggest challenges involved something much more mundane: where to hold its annual seminar.

The seminar, modeled after the one held every summer in Dallas, brings together the company's managers and thousands of its sales force members for award ceremonies, executive speeches and educational sessions. The event helps motivate Mary Kay's sales force each year.

Two years ago, the Chinese government, which is suspicious of large gatherings, told Mary Kay it couldn't hold its seminar. It wanted the company to conduct smaller meetings around the country. But that would have defeated the seminar's purpose.

So Mary Kay moved the event last year to Hong Kong. This past August, attendance reached 16,000.

But Hong Kong isn't an ideal location, said Mr. Mak, the Mary Kay China president. It's difficult for many Chinese to obtain visas to travel there. And Hong Kong is more expensive to visit than cities on the mainland, a crucial factor

because most sales force members must foot the bill themselves.

In the driver's seat

Mary Kay has managed to keep one of its key cultural emblems largely intact: the pink Cadillacs.

Last month, China's first pink Cadillac CTS sedans wound their way through the crowded streets of Shanghai. For the first time, six top-performing national sales distributors in China won the company's ultimate status symbol.

Winning a car means even more in China than in the U.S. In Shanghai, China's most cosmopolitan city, the streets and sidewalks are still jammed with bicycle riders. Cars have only recently become affordable for middle-class Chinese.

Among the Mary Kay faithful, a car ranks alongside a diamond bumblebee pin, a symbol of overcoming adversity, as the most coveted prizes.

Becoming a national sales distributor means Mrs. Hao is only weeks away from getting behind the wheel of her own Buick Excelle, a midsize car made and sold here that's also part of the Mary Kay stable.

"I will drive it soon," she said excitedly.

The Excelle's arrival will signal the start of a new phase of her Mary Kay career. It will also coincide with an important change in government policy: the lifting of China's seven-year ban against direct sales.

The end of the ban doesn't mean Mary Kay will be able to operate in China the same way it does in the U.S. In fact, the new rules, which go into effect this month, could make it more difficult for Mary Kay and other direct sellers to expand their sales forces.

No longer can distributors like Mrs. Hao train beauty consultants. Instead, only Mary Kay employees

can perform this task. In addition, beauty consultants will have to pass examinations to become certified. And starting next year, teachers, doctors, students and military and government workers can't do direct selling part time.

"That is going to be a concern for us," Mr. Mak said. "It makes it a little harder."

But the new rules won't dramatically alter Mrs. Hao's life. Beauty classes will still go on as normal in her two-room workshop in downtown Dalian. She will continue helping more than 100 beauty consultants and more than 200 distributors.

The day Mrs. Hao officially de-

buts as a national sales distributor is filled with ceremony.

Twenty-one lower-level Mary Kay distributors, women Mrs. Hao helps, form a circle around her. The lights go out. And the smell of melting candle wax begins to fill the air.

With her husband and 7-year-old daughter looking on, Mrs. Hao calls out the name of each distributor. She gives each a hug, a personal note and a candle in the shape of a small ball of pink roses.

A few distributors silently cry. Others dab at their eyes. Gradually, a glowing circle of pink lights appears in the middle of the room.

Then, Mrs. Hao picks up a tall pink candle and places it at the bottom of a giant heart-shaped candleholder. Her distributors follow her, setting their lighted candle balls in the slots around the pink heart.

Everyone gathers around the now burning symbol of love, clasps hands and silently makes a wish. Together, the women blow out the candles and clap.

Later, they gather for lunch in a large banquet room at Jade Garden, a restaurant in Shanghai.

Mr. Mak stands at the front of the room and presents Mrs. Hao with a sparkly pink book containing memorable quotes from Mrs. Ash and a plaque commemorating her achievement.

"Everything was beyond my expectations," she says. "I'm very touched."

After thanking everyone, she hands the microphone back to Mr. Mak. He gently reminds the audience that getting to this point hasn't been easy. There were challenges and obstacles, but also joy and laughter.

"We can see today that she's a role model," he proudly announces. "Today, I told her that she is Mary Kay's daughter."

A poster pushes Mary Kay skin care products in Shanghai, China. The Texas company entered the Chinese market 10 years ago and has been making money in China since 2001. The company hopes to eventually earn \$1 billion in annual sales in China.

Photos by RYAN PYLE/Special Contributor

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