

Amway Made China a Billion-Dollar Market. Now It Faces a Crackdown.

By Ryan Mcmorrow and Steven Lee Myers

Jan. 8, 2018

LANZHOU, China — Feng Gang stood in front of 150 people in a conference hall in Beijing that Amway, the American marketing giant, calls its flagship “experience center.”

Introduced endearingly as Big Brother, he pitched the company’s newest product to an audience of recruits — men and women, young and old, one a street sweeper still in his orange municipal jumpsuit.

Mr. Feng said Amway’s energy drink, XS, could reduce blood-alcohol levels by as much as 70 percent. It could cure depression, he went on, or help someone who is drunk drive home. His aim: to get the crowd to go out and sell the products.

For more than a decade, scenes like this represented a financial salvation for Amway and other companies that use sales representatives to recruit others below them in what’s called multilevel marketing.

Facing declining fortunes in the United States and elsewhere, they turned to a ballooning consumer class in China hungry for new products — and susceptible to promises of the riches to be had by selling them.

Now, the future seems less promising. The giants of multilevel marketing have come under a dual assault, from regulators here and in the United States.



An Amway presentation in Beijing. Direct selling has been legal in China since 2005, with restrictions that have been unevenly enforced. Li Wei for The New York Times

Two companies, Herbalife and Usana Health Sciences, disclosed last year that they faced investigations in the United States for their operations in China under the Foreign Corrupt Practices Act, which prohibits American companies from bribing foreign officials. Another, Nu Skin, settled a similar case with the Securities and Exchange Commission in 2016, while Avon Products pleaded guilty in 2014, resulting in a \$135 million fine.

Amway, which is not public, has not disclosed any inquiries by American regulators. In one Chinese province, however, the conduct of some Amway sales distributors prompted an investigation, one that the victims say was squelched by local officials, including at least one with ties to the company.

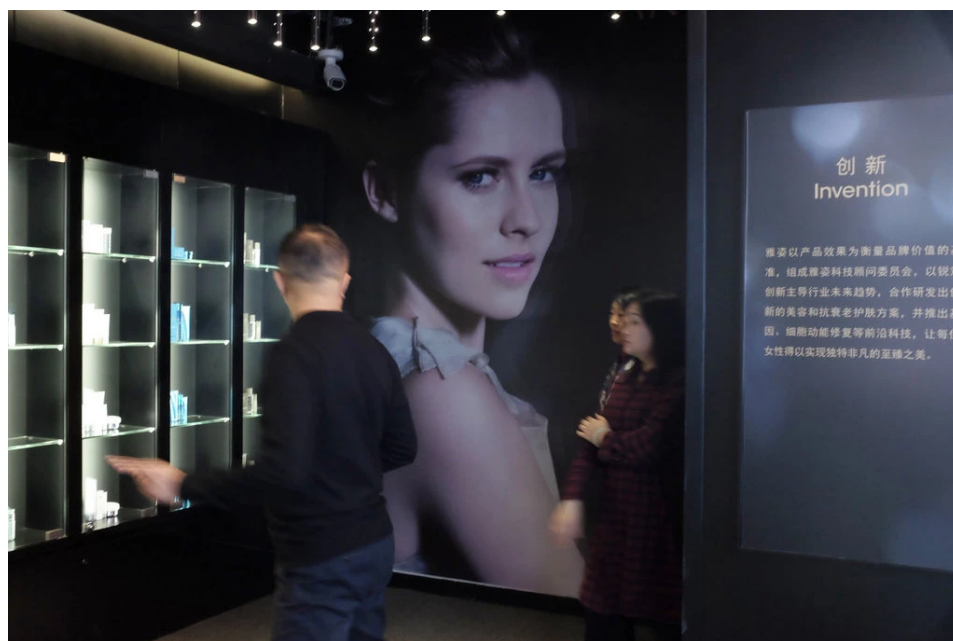
“This industry is absolute chaos for China,” said You Yunfan, a former Amway distributor who wrote a scathing memoir under the pen name Xiao Fei.

Noting that Chinese law prohibits many of the worst practices associated with multilevel marketing, he added, “The root problem is that the government is riddled with corruption and not doing its job.”

That may be changing. Four government agencies last year announced a crackdown on the marketing model, which critics denounce as a pyramid scheme.

Turbulence in the Chinese market could be devastating for Amway, which has relied on China for much of its growth over the last decade.

It is now, by far, the largest of the multilevel marketing companies here, with 1.5 million distributors, more than all the others combined, according to the Ministry of Commerce’s records. China is now Amway’s largest market, accounting for \$2.6 billion in revenue, or about 30 percent of its worldwide sales, the company’s president, Doug DeVos, told Reuters last year.



The Beijing experience center. China accounts for about 30 percent of Amway’s worldwide sales, the company’s president said last year. Li Wei for The New York Times

In a statement, an Amway vice president, Scott Balfour, said the company welcomed the crackdown, saying it would distinguish pyramid schemes from legitimate direct selling.

Amway has not been singled out in the campaign, and it has built an impressive brand here, operating gleaming showrooms in Beijing and elsewhere and sponsoring the Chinese Olympic team. Yet it has been dogged by accusations like those it has faced elsewhere.

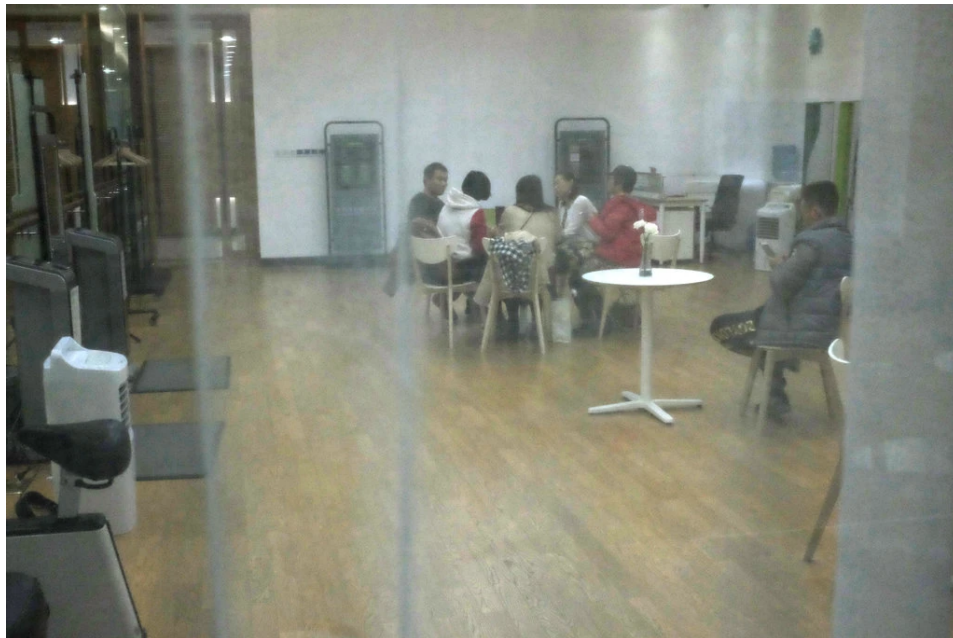
Former Amway distributors have organized online to warn others of the company’s model. Amway’s name in Chinese, an li, has entered the vernacular to mean to “promote heavily” or to “be brainwashed.”

Amway and others faced skepticism from the authorities nearly from the moment they entered the market in the early 1990s. Multilevel marketing was officially denounced as an “economic cult,” and in 1998 the government banned all direct selling.

Only when negotiating entry into the World Trade Organization did China agree to American demands to allow the companies in. Direct selling has been legal since 2005, though with restrictions intended to discourage the endless recruiting of new distributors, a component of Amway’s model.

Enforcement of the laws, however, remains uneven. “It’s a gray area,” said Liu Kaixiang, a professor at Peking University’s School of Law who conducts research at the university’s industry-affiliated direct-selling research center. “The majority of these direct-selling companies are right on the edge. If they were to completely follow the law, there would be no market at all.”

The vagaries of Chinese regulations and an avaricious bureaucracy have already ensnared others, like Avon, once the top direct seller here. In 2014, it admitted to providing \$8 million in cash and gifts like Gucci purses to Chinese officials.



Another scene inside the center. Amway has not been singled out for scrutiny. Li Wei for The New York Times

Similar troubles caught up with Nu Skin, which settled a case by the Securities and Exchange Commission in 2016 by admitting that it paid the equivalent of \$154,000 to “a charity to obtain the influence of a high-ranking Chinese Communist Party official” to resolve a potential fine.

Herbalife disclosed in a stock filing that it, too, was under investigation, while Usana Health Sciences announced that it had alerted the Department of Justice about questions over “expense reimbursement policies” of its subsidiary in China.

Amway said in its statement that it had not faced questions from American regulators about its practices in China. Its business has nonetheless raised questions.

In Amway’s Beijing center, a reporter with The New York Times listened as Big Brother Feng detailed sales tactics that would violate Chinese law if used, promising that new recruits could earn more as they recruited others.

A few days later, one of the recruits was out on the streets repeating the pitch as he handed out fliers for the XS energy drink. The fliers said new distributors could ultimately earn the equivalent of \$75,000 a year.

In fact, 96 percent of direct sellers make less than \$750 a year, roughly the average monthly wage for private-sector workers, according to government statistics.

In some regions, Amway in particular has come under focus.

In Lanzhou, a city of nearly 3.7 million along the Yellow River and the ancient Silk Road in Gansu Province, dozens of former distributors have accused the company of abetting extortionate practices that left them in debt. They accused those above them of conning them into buying products they could not realistically sell.

One of them, Liu Gang, said he had been persuaded to give up a job as a teacher in 2009 to pursue an Amway fortune.



XS is an Amway energy drink. Some former distributors in China have complained that they were duped into buying products they could not realistically sell. Li Wei for The New York Times

In training sessions, some of which he recorded and played for The Times, he was told that the way to achieve success was by working under pressure. He took out loans — first mortgaging his home, then borrowing from unofficial lenders working, he and others said, with the local Amway staff — to load up on vitamins, water filters and soaps. By 2014, he could not unload his merchandise and faced \$600,000 in debt.

“I was brainwashed,” Mr. Liu said.

The provincial office of the State Administration for Industry and Commerce, which regulates businesses, took the accusations seriously. In May 2016, the office sent a letter to complainants saying that there was evidence of wrongdoing and that the region’s top two distributors, a husband-and-wife team, Tang Jinsong and Zhao Yufang, “are suspected of operating a pyramid scheme.”

“To climb to the top, you need a team of distributors under you,” said Liu Jianhong, another former distributor, who provided the letter to The Times. “It forms a pyramid. We were at the very bottom.”

Mr. Balfour, the Amway vice president, said that the Lanzhou situation had “involved a number of serious violations of our rules of conduct, as well as violations of Chinese lending laws” by sales distributors, but that the company itself had not been accused of wrongdoing.

In a second statement, Amway said that it did not endorse exaggerated claims of distributors and that company policy prohibited obtaining loans to buy products. Mr. Balfour said the company would investigate specific claims brought to its attention.

The regulatory office in Lanzhou gave enough credence to the complaints that it referred the findings to the local branch of China’s main law enforcement agency, the Public Security Bureau.

Then the investigation stalled.

Wang Xingwei, the administration official in charge of the initial investigation, said in a telephone interview that he had been transferred off the case.

The former distributors said they believed that regional officials sympathetic to Amway had quashed their complaints. They cited an instance when the state television channel in Gansu, after interviewing them, received a directive not to report on their case.

According to a journalist at the station, Gao Zenglei, the directive came from the Communist Party’s provincial propaganda department. At the time, it was headed by Liang Yanshun, who once participated in an Amway program that enrolled officials in classes at Tsinghua University and Harvard University, according to Harvard and his online biography. Mr. Liang did not respond to requests for comment.



An image at the center featuring Amway’s founders, Richard M. DeVos Sr., left, and Jay Van Andel. Li Wei for The New York Times

Ms. Zhao, one of the top distributors, dismissed the accusations and said she and her husband, Mr. Tang, had done everything “entirely in accordance with the company’s system, according to the company’s operating model and under the oversight of the company.”

The aggrieved distributors, she added, were responsible for any debts they built up.

“Everyone should be responsible for their own actions,” she said. “If they don’t know this, they won’t last in this world.”

Mr. Balfour said Amway had punished individuals involved, though he did not disclose names or sanctions. Amway's website still counts Mr. Tang and Ms. Zhao as among its top handful of sales distributors, and their photo is on display at Amway's big Beijing conference hall.

The former distributors, by contrast, face financial ruin.

Liu Jianhong amassed \$300,000 in debt. In China, that means she has been put on a government list that prohibits her from flying, taking trains or acquiring new credit cards.

"I'm going to be dealing with this the rest of my life," she said.