

business, Amway. A mass movement more than a corporation, it made a very few people very rich while paying its salesmen soldiers more in inspiration than in cash.

The power of positive inspiration

By Paul Klebnikov

SNEERED AT in the media, investigated and fined by the authorities, Amway Corp. keeps growing. The world's second-largest door-to-door sales operation was conceived in a basement in Grand Rapids, Mich. only 32 years ago and today boasts \$3.1 billion in retail sales (\$2.6 billion at wholesale prices) from around the globe.

To this day, Amway is owned almost entirely by its founders—Richard DeVos, 65, and Jay Van Andel, 67—and their immediate families. FORBES estimates the company earned \$300 million last year after tax and that DeVos and Van Andel are each worth close to \$3 billion—although it is admittedly difficult to value a business that, like Amway, is based on ephemeral human relationships.

Amway manufactures and sells soap, cosmetics, vitamins, food products and other household products and sells water filters, Coca-Cola machines, MCI service, clothing and thousands of other items through its catalog. There is nothing unique about these mundane products. What is totally unique is the size of Amway's sales force: close to 500,000 strong in the U.S., 500,000 in Japan and several hundred thousand more in places like Germany, Mexico, Korea and Malaysia.

Although the average Amway distributor sells barely \$1,700 worth of goods a year, the sheer size of the sales army and its enthusiasm ensure success.

In an interview with FORBES at Amway's headquarters in its 300-acre manufacturing and dis-

Statue of Richard DeVos and Jay Van Andel
Cofounders who became legends.

tribution center outside Grand Rapids, Mich., DeVos spoke about the phenomenon he and Van Andel have created. "It is more than just money, it's a movement," he said. "DeVos in a plane has never traveled down the road."

The road has been closed, for example, Procter & Gamble last of four suits filed against the bizarre and dangerous products were instrumental in crossing million people boundaries," he said.

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tribution center just outside Grand Rapids, Mich., DeVos spoke at length about the marketing phenomenon he and Van Andel have created. "Amway is more than just a company, it's a movement to help people help themselves," says DeVos in a pleasant, low-pitched voice. "Nobody has ever traveled down the road that we have traveled."

The road has taken some odd twists. This year, for example, Procter & Gamble successfully concluded the last of four suits against Amway distributors for spreading bizarre and damaging rumors that P&G and its products were instruments of Satan. ("Whenever you deal with a million people you're going to have people who overstep boundaries," says DeVos, defensively.)

Perhaps he can't keep his eye on a million distributors, but he does know how to inspire almost every last one of them. The underlying principle is simplicity itself: Persuade the distributors that their interests and Amway's are exactly the same. One must turn outside the world of business—to religion and politics—to find people who work as hard for as little financial reward as most Amway people do.

Cynics would compare the system to a chain letter. Here's how it works:

Distributor A recruits distributors B, C, D, each of whom recruits three more distributors to work for them. If this recruiting pattern continues ten times—that is, there are 11 levels in the distribution chain—then the fellow who started the network, distributor A, would have 88,572 distributors working for him. If each of those people sells, on average, just \$1,000 worth of products, you've got an \$89 million marketing organization stemming from that one distributor A.

At offices, health clubs, beauty salons, churches, Amway recruits. The basic pitch: Whatever your dream is—a boat? a fancy car? kids' education?—it is within your grasp if you just devote some of your spare time to selling Amway products and recruiting other people to sell them.

In itself, the pitch is honest enough. Some Amway people do become affluent, even rich. But not many of them. The lion's share of money earned by Amway distributors is pocketed by 2% of the sales force, the organization's 35,000 so-called direct distributors.

These distributors typically have about 50 downline distributors channeling orders up to them. Direct distributors gross a minimum of about \$35,000 a year. The really big money—bonuses of up to \$300,000 and

more—is made by a handful of kingpins at the top of the heap.

And once a network has been created, what's to stop the organizer from selling other goods to the recruits to supplement their incomes.

Indeed, the really successful operators sell self-help books, tapes and even investment schemes to their faithful? Among the big distributors are people like Chapel Hill, N.C.'s Bill Britt and Charlotte's Dexter Yager. These two men each run networks of over 100,000 distributors and are each believed to net over \$10 million a year.

As with any army, the recruits are expendable. Amway is a fluid organization. Nearly half of the 1.8 million distributors who will be registered with Amway worldwide will drop out in the course of the year. For those who remain, the average distributor in the U.S. will net around \$780 a year in bonuses and markups from selling Amway products.

But in addition to the products the distributor sells to others, he will also consume, on average, \$1,068 worth of Amway goods himself. And he may spend hundreds of dollars or even thousands more on telephone bills, gas, rallies, publicity material and other expenses to expand the business. Some of the distributors may end up dipping into their savings, and a few may even run up

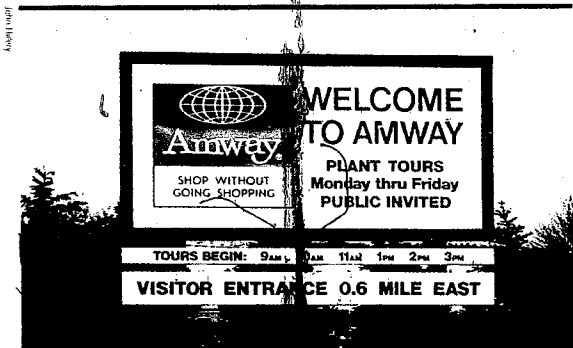
debts. The real money is made not by peddling to the public but by recruiting for Amway's sales force. There is great incentive for a new recruit to quickly recruit distributors reporting up to him. Which is why DeVos can say with some confidence: "We'll expand not by selling more per store but by opening more stores"—recruiting more distributors, that is.

Is Amway an illegal pyramid scheme? As far as the authorities have been able to discover, the answer is no.

The fact remains: The average foot soldier doesn't make much money for his or her efforts. This is where the inspiration comes in.

When he says, "Amway is more than a company; it's a movement," DeVos isn't just spouting propaganda. Amway promises, in effect: Join Amway, work hard and, with almost no capital investment, you too can become as rich as Bill Britt or Dexter Yager. It's up to you.

Few Amway distributors do not know by heart the inspiring rags-to-riches stories of the most successful distributors. Among the patron saints of the Amway



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age, Bill Britt, the master Amway distributor who organized the rally, introduced the other top distributors, who had arrived in their Cadillacs and Mercedes, flaunting expensive cars and jewelry. With the introduction of each of these role models, the crowd cheered.

Britt, 60, was a city manager in North Carolina before becoming an Amway distributor. An inspirational speaker, he might have made a great television evangelist had he not found Amway. He addresses his message not above or below but straight at the average Amway distributor's dreams: "I got tired of my Mercedes and I'd heard that the Lexus was a nice car. So I went down and bought myself one—and, yes, it is a nice car."

Britt normally lectures the audience on living clean, traditional family lives. "Don't wear the pants in the family," he admonishes the women, who make up half his audience. He glowers at the men: "Get rid of your pornography."

This time he focuses on the visions of financial security. Britt talks of the multimillion-dollar business he has built selling Amway products. Hundreds of average working people—barbers, policemen, truck drivers, car wash supervisors, dentists, middle managers—are introduced, and many of them recount how they became successful and became better people with Amway. After each story the audience roars its approval of the proud witnesses. ("We have two forms of reward in this world," says DeVos. "One is recognition, and the other is dollars. We employ them both in the Amway business.")

After two days the ceremonial part of the Britt rally ends as the audience joins hands and, swaying gently, sings "God Bless America." The attendees leave feeling good about Amway and good about themselves.

As DeVos puts it: "Our people are seeking inspiration all the time, as most people are. Some people find it in the Rotary Club, some people find it at church and some people like to go to Amway meetings."

How did DeVos and Van Andel get the idea of Amway? As great business ideas often do, this one came

to them by accident, and without much indication that it would make them multibillionaires.

In the 1940s Van Andel and DeVos were next-door neighbors in a Dutch-American section of Grand Rapids, Mich. DeVos' father was a car dealer, Van Andel's a garage owner.

Both men, says DeVos, inspired in their sons an entrepreneurial spirit and desire to start their own businesses.

During World War II the two friends served in the Army Air Corps. After the war they started a chartered air service, then a drive-in restaurant.

Then, in 1949, they joined a small direct-sales firm called Nutrilite. Nutrilite was started by an entrepreneur, Carl Rehnborg, who survived on cooked plants and animal bones in a detention camp in China in the 1920s and had gotten the idea for marketing a nutritional supplement.

DeVos and Van Andel developed a particularly successful Nutrilite distributor network that eventually grew to about 200 distributors in the Midwest. But the friends were not cut out to be rungs on someone else's distribution ladder. When Rehnborg and other Nutrilite leaders quarreled in 1959, DeVos and Van Andel pulled their 200 distributors out of Nutrilite and struck out on their own.

Amway's first product was Frisk, a biodegradable soap whose distribution rights they bought from a struggling Detroit chemist.

Using the sales methods and distributor network they brought from Nutrilite, DeVos and Van Andel sold so much soap that within two years they had opened their own soap manufacturing plant outside of Grand Rapids.

They added other products—cosmetics and cookware. Soon they were expanding across the country and over the border into Canada. The power of pyramid math was really working. Starting in the early 1970s, they expanded overseas, to Australia, the U.K., France, Germany, Japan.

DeVos and Van Andel have become very powerful men. Former Presidents Gerald Ford and Ronald Reagan have addressed Amway rallies. Some senators have been Amway distributors, as have celebrities like singer Pat



DeVos (left) and Van Andel
Expansion overseas in the past decade has made Amway the fastest-growing foreign company in Japan and a dynamic up-and-comer in Mexico and Korea.

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Boone and former football coach Tom Landry. All of these role models help inspire the Amway movement with a patriotic and religious feeling.

There were setbacks for Amway—one of them nearly fatal—along the way. The Federal Trade Commission began investigating Amway in the 1970s to determine whether Amway was, among other things, an illegal pyramid scheme in which newly recruited distributors lose out unless they themselves recruit other members.

“That was really a ‘go’ or ‘no go’ situation for us,” remembers DeVos. Finally, in 1979, the FTC ruled that Amway was not a pyramid, but found it did engage in restraint of trade and misleading advertising.

In the 1980s the Canadian government charged DeVos and Van Andel with customs fraud. Amway paid the Canadians \$58 million to settle criminal and civil charges.

Is there today no snake in Amway’s paradise? There are several.

As with a church or a political party, Amway must constantly protect its image if it is to recruit new members. In some cases, Amway seems to have taken concern for its image to extremes.

Former distributors and Amway officials say that like many movements based on a cult of personality, Amway’s attitude toward any insider critical of the organization has bordered on paranoia.

Edward Engel was Amway’s chief financial officer until 1979; he resigned over a disagreement with DeVos and Van Andel on how to run the Canadian operations. That apparently branded him a traitor; he says he and his family received threats for years after his resignation. “It was a Big Brother organization,” says Engel today. “Everyone

assumed that the phones were tapped, and that Amway had something on everybody.”

In 1983 Engel’s former secretary, Dorothy Edgar, was helping the Canadians in their investigation of the company. She was roughed up in Chicago, after she was told to “stay away from Amway.” Engel, who picked her up after the incident, says he believes her story. Amway would not comment on the incident.

There was extremely bad publicity in 1982 when a former distributor, Philip Kerns, quit to write a damaging exposé called *Fake It Till You Make It*. Kerns charges that Amway used private detectives to follow him and rough him up (see photo below). Kerns’ exposé prompted the *Phil Donahue Show* and *60 Minutes* to run uncomplimentary pieces on Amway. Amway’s recruitment dropped off; with it, sales plunged an estimated 30% in the early 1980s.

In 1984, another former Amway insider, Donald Gregory, says he started to write a book on Amway, but the company obtained a gag order against Gregory in a Grand Rapids court.

More bad publicity surfaced to hurt Amway in 1989, when it teamed with Minneapolis’ remainder magnate Irwin Jacobs to buy stock in Avon Products, Inc. as part of their respective takeover bids for Avon. Avon Chairman James Preston hired private investigating firm Kroll Associates to dig up some dirt on Amway. Kroll unearthed several lawsuits pending against William Nicholson, who had been hired in 1984 as Amway’s chief operating officer. Several days afterwards, Amway and Jacobs dropped their bid.

The fact that Amway is a loose confederation of hot-shot sales empires creates other thorny problems. In years past, several of Amway’s wealthiest distributors created independent empires that published their own magazines, organized their own rallies and even published their own versions of the Amway sales and marketing plan.

Former Amway distributor Philip Kerns (back to camera) and security guards **Kerns says this photograph was taken as he was led into the basement of the Portland Coliseum during an Amway rally and roughed up; later, armed private detectives followed him to Chicago.**

Known inside Amway as the “Black Hats,” these master distributors frequently indulged in excessively high-pressure methods of exploiting their foot soldiers, persuading them to shell out hundreds of dollars each for distributor-produced books, tapes and even unrelated products and investment schemes.

The problem: If Amway’s distributors make a lot of money from selling such promotional materials (as opposed to actual products) to



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movement is Charlie Marsh, a gravel-voiced former small-town policeman, who built a hugely successful worldwide Amway network.

There is Bernice Hansen, the grandmother who was an accountant in Grand Rapids before she joined Amway and discovered her talents for sales and recruiting. Perhaps most inspiring is Dexter Yager, the stout, bearded former beer salesman from Rome, N.Y.

In a world where many people find little satisfaction in the paychecks they receive from big companies or public agencies, such visions of financial independence are often compelling. But Amway goes a crucial step beyond mere money. It offers its recruits membership in a community of like-minded people—entrepreneurial, motivated, upwardly mobile people who believe in their country, in God and in their family. “This country was built on a religious heritage, and we had better get back to it. We had better start telling people that faith in God is the real strength of America!” Richard DeVos writes in his book *Believe!*

Amway distributors are bound by a set of shared beliefs

reinforced by myths, icons and documents. They are expected to read self-improvement books (popular titles include *Believe!* and *How To Be Happy Though Married*). They purchase and listen to Amway-sponsored inspirational cassettes (usually live recordings of their “upline” leaders’ speeches and seminars). And they are expected to use only Amway products in their personal lives. Internal Amway documents show that the average active distributor sells only 19% of his products to non-Amway affiliated consumers. The rest is either personally consumed or sold to other distributors.

It all adds up to this: When you sell Amway products, you’re not working for a boss or a faceless organization and its shareholders. You’re working for yourself and for Richard DeVos, Jay Van Andel, Charlie Marsh, Bill Britt, Dexter Yager and all the other Amway people who struggled and made it. You’re on the Amway team, and it feels good to be there.

Amway rallies typically resemble a mix between a rock concert and a religious revival meeting. The evenings are often kicked off with inspiring music—the theme from *Rocky*, say, or *Chariots of Fire*—followed by much audience hand-holding, singing, swaying and listening to testimonials. Some Amway leaders, such as Dexter Yager, are famous for working their crowds into Amway chants and for revving their audiences with inspirational speeches that last into the early-morning hours.

If Amway seems like a commercial version of fundamentalist religion, DeVos offers no apologies.

“For a lot of people, Amway is their only route out [of poverty],” he says. “So Amway relates right down to the grass roots, right down to where people live. You wonder why this mythology, why this rah-rah, why they scream and yell. They scream and yell for the same reason they do at a football game. They have discovered that it is fun to be around people who cheer other people on, who encourage people.”

One weekend this summer over 12,000 enthusiastic people gathered for a rally in Richmond, Va. A handful were wealthy distributors of Amway Corp.’s products; the rest wanted to be.

The meeting began with a prayer and the Pledge of Allegiance. On



Amway distributors Charlie and Elsie Marsh

A former policeman, Charlie Marsh got in early and made it big.

new recruits, then it again raises questions of an illegal pyramid scheme.

In 1985 two distributors sued Bill Britt, Dexter Yager and Amway Corp. among others in the state of Washington, alleging they were "brainwashed" into purchasing enormous amounts of motivational materials. The case was settled out of court in 1988, but a gag order was placed on the court records and participants involved in the case.

Says DeVos: "We're dealing with many motivated entrepreneurial individuals who are actively seeking to improve their businesses. Through their own lack of knowledge, they can run afoul of the law, or do things they shouldn't do."

Why not fire the rascals? Says DeVos: "Whenever you terminate anybody in this business it sends tremors through the whole organization, because [the distributors] say, 'Oh, oh, the company now has the power to kick me out.' And all those people with the sole idea of owning their own business and doing their own thing suddenly have a spike driven through their hearts."

The lawsuits, bad publicity and government scrutiny seem to have taken a toll. Several of the old-line distributors now appear to have become ultraconservative in their recruitment of new distributors—bad news for an organization that grows with a constant influx of new recruits.

Says one colleague of kingpin distributor Bill Britt: "Britt has become very conservative. He's preoccupied with the FTC, with the legalese of what can and cannot be done. To listen to him these days, you'd think you were listening to a lawyer."

Fortunately for DeVos and Van Andel, there are fewer such problems overseas so far—where Amway has kept tighter control over its distributors. Amway Japan has expanded into a network with over 500,000 distributors accounting for \$734 million in sales last year.

Last April, DeVos and Van Andel sold a sliver—8%—of Amway Japan to the Japanese public. The Tokyo market values Amway Japan at \$5 billion, a fanciful value based more on the tiny amount of stock outstanding than the business' inherent value. Next foreign targets: Bra-

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zil, Poland, Indonesia, China, the Philippines and Czechoslovakia.

DeVos is convinced that motivating foreigners is no different from motivating people in the U.S. "In Mexico, people will ride a bus for hours to come to an Amway meeting because Amway will give them a shot at success. Most of these people have believed for generations that they would never be anybody, because the rich guy on the hill told them they'd never be anybody. But the Amway business has come to

symbolize for great numbers of people their chance to get out of their rut."

As the sleep of centuries lifts from more and more people around the world; as the dead hand of socialism vanishes, this message should bring recruits flocking to the Amway banner all across the world.

Will the message continue to reverberate when DeVos and Van Andel are gone? There are ample signs that the company is preparing for that day. Several top executives have taken early retirement, and there are rumors that Nicholson is on his way out. DeVos and Van Andel each have four children; all but one—Richard DeVos Jr.—work for Amway. "My guess is that we will have professional management, at least initially," says Van Andel.

But can hired hands run a truly entrepreneurial business of this sort? Probably not. Amway may well decline when DeVos and Van Andel are gone. But there will be other Amways. The business is rooted in principles deeply embedded in human nature.

Amway's 300-acre manufacturing plant outside Grand Rapids, Mich. According to "Consumer Reports," some key Amway products have a reputation of being more expensive than major rival brands, but enthusiastic distributors successfully sell the products.

