

## DIRECT SELLING WORLDWIDE: THE MARY KAY COSMETICS STORY

By: Dianne H. B. Welsh and Yvonne Pendleton

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Dianne H. B. Welsh  
James W. Walter Distinguished Chair in Entrepreneurship  
University of Tampa  
401 W. Kennedy Blvd.  
Tampa, FL 33606-1490  
813-926-4456 phone  
813-926-4042 fax  
[dhbwelsh@tampabay.rr.com](mailto:dhbwelsh@tampabay.rr.com)

Yvonne Pendleton  
Director, Corporate Heritage  
Mary Kay Inc.

## **ABSTRACT**

This case is the story of one entrepreneur, Mary Kay Ash, and how she took her company, Mary Kay Cosmetics, international. Her basic guideposts on the human spirit and her belief in the abilities of women, in particular, have made her company's successes worldwide almost revolutionary. The case encompasses the history of the company, the strategy behind their expansion around the globe, and the beliefs, norms, values, and culture that has made Mary Kay, Inc. one of the strongest direct selling companies in history.

## **INTRODUCTION**

Mary Kay Inc. had achieved prominence as a U.S. cosmetics company and direct seller, but the company had not even reached its 10<sup>th</sup> year when international opportunities knocked on its Dallas door. The year was 1971 when a couple of Australian entrepreneurs – so impressed by what they had seen and read of the company – persisted to get Mary Kay's first international outpost in this faraway land 'down under.' That's how it came to be that Mary Kay was in Australia before it was anywhere else outside the U.S. The company now has a presence in more than 30 international markets on five continents and the focus for expansion is clearly on those places where the opportunity will be most appealing to entrepreneurial women.

What has transpired throughout the world is the creation of an interpersonal business model that seems to translate into a language women understand. Mary Kay's history illustrates how an American company can expertly tailor its marketing plan to emphasize specific market strengths. In regions where women are even more under-employed than they were in the U.S. of the mid-60s, Mary Kay can be the great equalizer, the quintessential micro-entrepreneurial opportunity that has the potential to bring an entire family up from poverty or dire straits. Even in countries where infrastructures are far inferior to those of the United States, the company has experienced the great loyalty of women who – once they are exposed to the company philosophy and possibilities – will go to great lengths to make it work for their lives – in their market. According to Tom

Whatley, Mary Kay's President of Sales and Marketing, it is the culture that makes the most difference to Mary Kay's successful global development plan. When the culture is understood and acted upon, Mary Kay has seen success. Where it is not understood or embraced, the company has experienced difficulty.

The same year that Australia opened was coincidentally also the year that the company took another measure that would have far-reaching effects on the culture and the company's success. In 1971, it named the first two Mary Kay Independent National Sales Directors – establishing an extremely prophetic leadership role that would come to be viewed as one of the smartest succession plans in the business world. It has come to be viewed as a strategic move – instigated by Mary Kay Ash herself -- that has fostered female entrepreneurs like few others. It has been generally accepted that no one would ever replace the dynamic and charismatic company Founder, but the Founder had embarked –in establishing this position— upon a program where she could encourage leaders to create new leaders. The prospect of achieving this pinnacle has greatly enhanced the appeal of the organization worldwide to entrepreneurial women aspiring to leadership.

Texas entrepreneur Mary Kay Ash had founded her company on a shoestring in a small Dallas office center after vowing to create a company where women were provided opportunities long denied them in the workplace. She always said that she never imagined her cosmetics company would make it much outside Dallas city limits, let alone to nearly every time zone in the world. What the illustrious company Founder did realize

was that – just like in the America of the 1960s – the carving out of opportunity reverberates extremely well throughout every culture and language. “We discovered that all women want the same thing,” Mary Kay Ash once said. “They want a better life for themselves, their families and their countries. And they are willing to work for that.”

Perhaps it is that common thread – paired with Mary Kay’s 1963 founding belief that she wanted to create opportunities for women – that has contributed most to the company’s fame as well as its growth as a company whose mission is to “enrich women’s lives.” Corporate employees of Mary Kay Inc. attest that seeing this mission to fruition in the U.S. is exhilarating. However, it is in the witnessing of this phenomenon outside the U.S. that they come to understand the strength, stability and long term possibilities of the Company’s mission. After a 41-year run, the potential for Mary Kay remains huge.

## **The Americas**

By 1976, when the Company’s stock was first listed on the New York Stock Exchange, it had significantly enhanced its product line and already opened three U.S. distribution centers in the South and on the East and West coasts when a major opportunity arose. That was Canada, where in 1978; Mary Kay Ash answered repeated requests from its neighbor to the north. Canadians love to relate the cosmetic icon’s first visit to their country. It was in the midst of a deadly winter storm that the petite dynamo came, sans boots, to meet and rally the Canadian independent sales force. Despite radio safety warnings to stay at home because of difficulty traveling, Canadian women came out to

meet and greet Mary Kay in a hotel ballroom. It was said to be so cold there was ice forming inside the ballroom windows, yet Mary Kay's magnetism warmed the crowd. They definitely warmed to her message. That began a lifelong mutual admiration between the Texan and her Canadian operation. One employee who traveled with Mary Kay Ash on several subsequent visits said, "She was the consummate hands-on leader and that made a real impression with the women of Canada." Mary Kay never hesitated to get out from behind her desk and go up close and personal to disseminate her caring leadership style.

A *Reader's Digest* article, "Mary Kay's Sweet Smell of Success," appeared in late 1978, and just one year later the Company and its Founder were profiled on television's "60 Minutes." This latter 1970s media attention would – coincidentally – set the stage for a continued bright future for the company, both domestically and globally.

Mary Kay expanded to Argentina in 1980. In 1986 – shortly after the company was returned to private ownership – the first European operation, Mary Kay Germany was established. Expansion to Asia didn't begin in earnest until the 1990s.

Argentina and Mexico offer two great examples in the Americas region that validate and provide insight into how closely the Company's global success is aligned to its culture. Both countries have weathered economic crises that – rather than rocking them -- only solidified Mary Kay's position in those markets. Argentina came on board in 1980 but it wasn't until 2001 that its staying power was proved. There was an economic crisis that year that saw a blistering 300 percent devaluation as well as a financial collapse.

According to Mary Kay Latin America President Jose Smeke, even amidst these dire straits, “Our sales force count nearly doubled from 12,000 Independent Beauty Consultants to 20,000. There was a 28 percent sales increase in local currency.” Why? How? Smeke says Mary Kay Argentina knew what to do in 2001 during this economic crisis because one of its most successful sister subsidiaries, Mary Kay Mexico – founded in 1988 – had survived and thrived through a similar economic crisis in 1994. In Mexico that year, there was a currency devaluation of more than 150 percent in one day, a 20 percent unemployment rate, political uncertainty, and price increases of up to 60 percent.

“We faced daunting obstacles, but we had a commitment to our independent sales force and their families, and so we took some risks for them,” says Smeke, who believes the appreciation and support of Mary Kay Inc. to Mary Kay Mexico at that time (and to Argentina seven years later) provided the trust and confidence that would see sales increase by 80 percent by the end of 1995, as well as a 35 percent increase in Consultant count. “We had,” Smeke recalls, “a sales force in very high spirits. Their accomplishments proved that during a crisis a direct selling company can be a very good option for women who need to help support their families.” In Mexico and elsewhere in the Mary Kay world, one key most certainly makes a huge difference. “We always said to these small business owners, ‘you are in business *for* yourself, but not *alone*,’” explains one corporate veteran.

The Company’s fortunes are closely tied to the performance of its independent sales force. Mary Kay Mexico had opened in 1988 when the U.S. parent company was 25

years old. By 2004, Mexico had grown to be Mary Kay's second largest subsidiary in numbers, with an independent sales force of more than 120,000. Among those legions are dramatic and life-changing stories of triumph over illiteracy, poverty and even war. Who are the women of this sales force? Throughout the world, their backgrounds and lifestyles are as varied as they are in the U.S. Their stories portray the Mary Kay mission to enrich women's lives extremely poignantly. When Mary Kay Mexico published a call for stories to celebrate its 15th anniversary in 2003, hundreds of stories poured in. The best of those stories would be published in *Reader's Digest Mexico*. Among them were numerous stories like that of the fruit store merchant who had worked long hours with little to show. Without a car, but with the mentoring of her Independent National Sales Director, she decided to devote as much time to her Mary Kay business as she had to her fruit stand. She is now a successful Mary Kay Independent Sales Director in Mexico, planting many more fruitful seeds for growth than her produce stand ever would or could have provided. Even husbands of sales force members, on occasion, will testify to the life-changing potential they have seen this opportunity offers their wives and their families. One of the things they always express appreciation for is the Mary Kay emphasis on family and balance, which resonates particularly well in these cultures.

Mary Kay Ash saw the huge potential of changing women's lives in Mexico very early on. Not only did she enroll in Spanish classes, she often spoke to Spanish-speaking leaders in their native language. Even though in Mexico she was known to have ordered "a grandfather" once in a restaurant when she wanted a glass of milk, Mary Kay's love for the language and the culture was always a source of great pride to her Spanish-

speaking “daughters” as she called them. The first Independent National Sales Director in the U.S. of Spanish descent was an immigrant who had been airlifted from Cuba to the U.S. with parental consent in 1961 to prevent her indoctrination into communism. By 1975, she was enamored with the thought that she could earn the use of a pink Cadillac like the one she had seen in Mary Kay literature. By 1977, she had her first of many pink Cadillacs, and in 1991 was named a Mary Kay Independent National Sales Director.

The seeds of entrepreneurship exist today in Brazil, where an American woman of Brazilian descent decided to take her knowledge and skills as a Mary Kay Independent Sales Director and start over in the land of her forebears. With 18 years of Mary Kay business experience in the U.S., she knew the huge potential Brazil would have for this company and its mission to enrich women’s lives. She took a giant leap of faith, returning to Brazil to begin a new Mary Kay chapter in her life. It paid off. Only four years after starting over, this woman became Brazil’s first Independent National Sales Director in August 2003 – just five years following Mary Kay’s opening in Brazil.

Mary Kay’s General Manager in Brazil says that this woman’s successful journey represents a true milestone. “Other women have started to see everything that’s possible. She is, they reasoned, ‘just like me’ and so they came to understand how they could do the same.”

## **Mary Kay Europe**

The company had celebrated its 30<sup>th</sup> anniversary and had crossed the threshold as a billion dollar business at retail by the time Mary Kay Russia opened in 1993. Russia has become a pillar of strength and it is clearly among the best places on the globe to see the power of success potential that results from entrepreneurs with a penchant for hard work. Looking at Russia and the surrounding nations, it's apparent that the principles, career path and the products of this Dallas Company have made the transition into an international opportunity that transcends generations, language and culture. Mary Kay Russia also symbolizes that it is possible to transcend weather and wartime.

The story of one Independent National Sales Director from a region in the Far East of Russia illustrates how enterprising women can overcome economic woes and a severe climate. For this woman, building her business often necessitated month-long waits for products to arrive when inclement weather would prohibit air travel to and from the area. She built it anyway. So intent was another woman to get her products to her market that she would routinely fly in the cargo hold of an airplane in order to make the nine hour trek to the distribution center.

Another Independent National Sales Director hails from Chechnya, a region torn by wars since the time of the czars through the Soviet period and even today. This former music teacher left Chechnya for Moscow to discover the only work she could find was cleaning floors. Her Mary Kay business brought a radical lifestyle change -- affording her the luxury of owning her first car in the mid-1990s and the financial ability to unite her family, long separated by poverty and unrest at home.

Mary Kay has also been an important phenomenon during the second phase of “perestroika” – the end of the USSR and the start of privatization and reform.

The president of Mary Kay’s Europe Region, Tara Eustace, resides in Russia where she says she has seen Mary Kay contribute to a better way of life, a change of thinking and many positive influences. She recalls how Mary Kay Ash was overjoyed and proud to bring the Mary Kay opportunity to the former Eastern Bloc countries. Many in the Mary Kay world fondly recall the Founder’s visit to Germany shortly after the fall of the Berlin Wall. Germany had come on board in 1986 but shortly after reunification of East and West Germany, a newly free East German Independent Beauty Consultant just couldn’t contain her enthusiasm when she walked across the stage to shake the hand of Mary Kay Ash. She grabbed the microphone and proclaimed, “First we get freedom, and then we get Mary Kay!”

Eustace says Europe has followed the Mary Kay model very closely. Russia in particular has adapted to the lack of infrastructure (post, delivery, poor phone lines, emerging bank infrastructure, lack of personal check or credit card systems) by developing a Customer Service operation center where placement and payment for orders as well as education can take place. Some of the largest recognition meetings for Mary Kay Russia have been held at the Kremlin, which at one time was one of the few venues large enough.

Eustace believes that oftentimes the most effective way to deal with a less than positive impression of the direct selling model is by careful attention to teaching and focusing first on quality rather than quantity. “A great Mary Kay staff,” she concludes, “helps the new

market attract and teach those very first vital Independent Beauty Consultants. Together they will build the opportunity in their country.”

Eustace recalls hearing the poignant story of a woman from Odessa who is an Independent National Sales Director in the Ukraine. The home she lived in had no plumbing and no water. Today the woman recounts how one hot summer day she and her young son were dust-covered from hitchhiking along the motorway. “I was angry at myself and my miserable life,” she writes, “when suddenly in the row of dusty cars, I see a white, clean Mercedes. That Mercedes became my dream.” Today the woman drives a pink Mercedes courtesy of Mary Kay. She and her family vacation at the best international seaside resorts and her son studies at the most prestigious school and attends the finest sports club. “And owing to Mary Kay, I managed to make my dreams real,” she says.

The entire region is filled with stories of dreams come true and lives changed. Not only did Mary Kay Russia survive the economic crisis of 1998, but the company’s Independent Beauty Consultant count had almost doubled by the end of 2002 and nearly doubled again at the end of 2003. Currently there are some 100,000 Independent Beauty Consultants – third largest of the international markets behind Mexico and China. Another place where numbers were significant was in sales force leadership. By 2005, Eustace estimates that some 70 women in Russia alone will be Independent National Sales Directors.

## Asia

If the prospect of a recognition and rally meeting of a U.S.-based capitalist company taking place at the Kremlin isn't enough of a contrast, imagine then that kind of a rally taking place in China. It is in this ancient land that Mary Kay has seen wonderful success. China, today the eighth largest consumer of cosmetics, is Mary Kay's most profitable subsidiary. It is also recognized by the business community. *Fortune China* named Mary Kay one of the top ten companies to work for in China. Not only is the marketing plan successful, Mary Kay manufactures its products at its facility in Hangzhou, and was the first cosmetics company that China granted a quality control and guarantee system certificate in 1998, just three short years after Mary Kay opened for business in China. Perhaps even more significant is the impact that the venerable culture of this American company has had on the historic land and its people. K.K. Chua, president of Mary Kay Asia, says he knew from the beginning that Mary Kay principles would transfer well into Chinese culture. "Confucius taught if you want others to treat you well, you must first treat others the same." As we examine the various components of what constitutes the Mary Kay culture, it is closely aligned with the Asian culture.

The region has not been an easy one to excel in. Mary Kay China faced daunting obstacles including a government ban on direct selling shortly after it opened. During the six months of the ban, more than 4,000 Mary Kay Independent Sales Force says Chua, "refused to go away." By the time Mary Kay was back in business, these faithful sales force members were ready to carry China to its current status as the company's largest

subsidiary. Mary Kay looks forward to expanding well beyond its 18 branch offices, as well as set operations in 29 additional cities. A new manufacturing plant is planned for 2006.

In addition to many inspiring stories, Chua points out that Mary Kay has made its way in China by following yet another of the founding principles. The belief in giving back to the communities has taken root in re-investing part of its profits into the lives of the country's women. There is a micro credit fund for female workers, schools in mountain regions where female children have been too poor to attend school, scholarships for female students at two prominent universities, and youth projects emphasizing skills training. The most telling of the impact of Mary Kay Ash on a culture so far removed from her own is the small rose garden outside a maternity hospital in Shanghai. It commemorates Mary Kay's life and philosophy and this Mary Kay garden honors the fact that this American woman's legacy is firmly established in China.

Equally heartwarming is a painting that hangs in the Mary Kay Museum at the world headquarters in Dallas. The Chinese street scene was painted by a renowned Chinese artist as a thank you to Mary Kay Ash. The artist paid tribute to this American businesswoman who had provided her a first chance at developing her personality. In the tribute letter, she poured out the heartwarming story of never having spoken until her teens. Although recognized as an artist she was extremely uncomfortable around people until her own Mary Kay network gave her the confidence among people that had eluded her for her entire adult life.

Another strong testament comes from the woman who ranks first among Independent National Sales Directors in international operations. In China, she was one of the 15 pioneers in the Mary Kay Independent Sales Force – one whose fierce determination to excel at her Mary Kay business could not be dampened. By her late 20s, she had attained the prestigious Independent National Sales Director position and in her mid-30s, ascended to first place among international Independent National Sales Directors. A medical doctor and National Sales Director told of never having worn makeup before she was 30 years old. Her mother believed only bad girls wore cosmetics. She came to know the company through its products and eventually left the medical profession to pursue a Mary Kay business. She says today, “In my mind, Mary Kay is a footstone. On this base, women’s dreams could come true: beautiful appearance, harmonious family, bright life.”

Another National Sales Director in China today has difficulty believing how her life has changed since she first began her Mary Kay business. She fondly recalls how she would regale her skin care class participants by telling them about the Texas-based legend and those infamous pink cars of the Mary Kay world. She went on to qualify, in 2000, for the first pink car in China. Having gone from being a jobless, homeless and poverty stricken divorced mother to becoming an international success story is indeed a powerful journey. It is a journey that breathes belief into other women aspiring for their own brand of Mary Kay success. It is a confidence-inspiring journey that Mary Kay’s history has proven others will emulate.

## **Conclusion**

It is the culture of Mary Kay that seems to shape the heart of the Company, no matter its location worldwide. Mary Kay is intent upon transforming itself to achieve an internal corporate challenge by the Company's 50<sup>th</sup> anniversary in 2013- that the international independent sales force will exceed that of the United States. By 2004, the international business sales projection was expected to exceed what the entire U.S. did in the year 2001.

The number one corporate strategy is to “amplify the soul” of the company. Mary Kay has not only “let the culture be,” the Company has gone to extra lengths to make the heart of the Company the focus of international education and development. While the lucrative nature of the Mary Kay marketing plan would seemingly be sufficient, that's not enough. It's not enough, Whatley says, that a woman can earn potentially at 100 times the average per capita income of her country. This success works so much better and lasts longer when it is applied according to Mary Kay's founding principles. In 1963 when Mary Kay Ash stressed her Golden Rule style of doing business, it was a foreign concept to even a U.S.-based company. Today, that style is so celebrated that a recent newsletter took the time to spell out how the Golden Rule translates into all the major cultures and faiths of the world. There is always the emphasis on what Mary Kay saw as, “belief in the beautiful potential of women” that also drives Mary Kay's global success. Once the sales force understands the Mary Kay culture, adapting business systems to the customs and mores of each new country becomes a much simpler process. But it is never simple.

Mary Kay's International staff will talk of a starter kit designed for the tastes of Western women who drive their cars everywhere and how its size wreaked havoc on women in Asia who typically walk and take bicycles or buses everywhere. They will allude to how much more 'global' the color palette and formulas of Mary Kay brands are today as they routinely conduct product focus groups on a multitude of skin tones and in nine languages. Even a recent new Independent Sales Director education session in Dallas featured fully one tenth of the attendees needing translation into languages such as Polish, French, Cantonese and Spanish. But more important than the language is the common and shared experience all women relate to. That will, in summary, make the difference for this American company. When accepting the posthumous award given Mary Kay Ash as "Greatest Female Entrepreneur in American History," her grandson Ryan Rogers said, "Mary Kay tapped into one of the greatest under-used natural resources this nation had to offer – the hearts and minds of its women." It is much the same today throughout the more than 30 markets where Mary Kay has a presence, and in those parts of the world that women have even fewer opportunities.

Direct selling is one of the only forms of retailing that can adapt to virtually any conditions or circumstances and Mary Kay Cosmetics is a great example of this.

Entrepreneurs and capitalists alike have come to see that when direct selling operates by the highest of standards, it can make amazing strides in contributing toward solid world economies. Mary Kay, Inc. follows the ethical standards set by the Direct Selling Association (DSA), and was instrumental in seeing the document to fruition in the 1970s

and strengthening it in the 1990s when one of its corporate officers was serving as DSA Chair. The DSA is the industry trade organization comprised of 150 direct selling member companies worldwide and has been an advocate of ethical business practices and consumer services. The DSA Code of Ethics has served the industry well, an industry now comprised of 49,937,719 sales people as of February, 2004 (R. Diamond, personal correspondence, March 10, 2005).

The culture of Mary Kay, Inc. reflects today the caring attitude its founder, Mary Kay Ash, established at the outset. David Holl, President and Chief Operating Officer believes that, “A fiscally sound company can also be a nurturing and caring company. We have a larger goal than selling a product. I have seen firsthand the stories of self esteem and personal growth that abound throughout the Mary Kay world. I know nothing would please our Founder more.” Holl continues, “We have experienced in more than four decades that the businesses that succeed the most in Mary Kay are those built and based on the number of lives touched. Having someone in your market break a belief barrier is extremely important. Having them succeed by following Mary Kay principles is even more important.”

Mary Kay Ash was a role model that truly believed in the human potential, encouraging others through positive reinforcement, such as praise, recognition, and respect. To instill her point, she insisted her own board of directors table have round seating with no head. These principles have greatly enhanced the appeal of the organization to aspiring entrepreneurial women. Today, there are more than 400 Mary Kay Independent National Sales Directors on five continents that serve as inspirational leaders for more than 1.3 million women in the Mary Kay independent sales force.