

Industry News



Malaysia, the Pearl OF THE DIRECT SELLING WORLD

by Katherine Ponder

Malaysia is a study in contrasts. The first hint of its diversity comes from simply looking at a map: The country is divided by the South China Sea, with one-half of the country on Southeast Asia's Malay Peninsula and the other half taking up Borneo's northern third. The juxtaposition doesn't stop there. The population is a melting pot of religions and cultures, but they manage to come together in a bustling nation that is ranked 12th in the world for direct selling. The attractions for direct selling companies are great: The population is receptive to the industry, entrepreneurialism is growing, the demand for products is strong and the diversity provides excellent staging ground for expansion into other Asian markets.

The Malaysian Mixture

Within Malaysia's 126,853 square miles reside 24 million people with a wide range of cultural differences. The population is younger than that of many countries—with the median age being approximately 24 years old—and literacy is a fairly high 89 percent. The Malay people are the biggest group and practice Islam; the Chinese are the second largest group; and Indians, indigenous people, and others round out the ethnic palette. In addition to Islam, you can also find Buddhism, Daoism, Hinduism, Christianity, Sikhism and limited shamanism. Languages are just as much a cornucopia of differences, with Bahasa Melayu being the official language, but English, Chinese,

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Tamil, Telugu, Malayalam, Panjabi and Thai are also common in the country. With all these groups and their distinct cultures, the country is still peaceful, with little civil unrest.

The diversity is one of the more difficult aspects to master for multinational direct selling companies. Reliv International has found that Malaysian nationals who enter the business can handle the sensitivity easily, but others need specific training. "Part of the challenge is getting in and understanding the culture," says R. Scott Montgomery, Senior Vice President. "We go through a one-day training program where distributors sit in our office in Petaling Jaya, and our corporate staff helps them adjust and set up whatever services they need. We're educating our distributors on the proper etiquette and customs in that country, including little things like proper dress and what to do when you enter someone's house."

Julie Yeap, General Manager of Shaklee Malaysia, says the diversity takes a great deal of customization. "Initiatives are tailored to suit the needs of respective ethnic groups with extra sensitivity to their religions and cultures."

Drawing Interest

Malaysian diversity has attracted a large contingent of direct selling companies. There are more than 533 companies that conduct direct sales licensed by the Malaysian government. Of these, 66 are members of the Direct Selling Association of Malaysia, including companies from the United States, like the aforementioned Reliv and Shaklee, as well as Sunrider International, Nu Skin, Tahitian Noni, Avon, Forever Living and Mary Kay, among others. The DSAM announced its members reported sales of ringgit Malaysia 2.7 billion (\$732 million) in 2005, which was roughly one-half of the industry's RM5.8 billion (\$1.5 billion) total.

When DSAM President Paul Yee announced the year-end results, he said, "2005 marks the 7th consecutive year in which DSAM members recorded an increase in sales. Their sterling performance is due to key initiatives they have undertaken to ensure continued growth and sustainability in the industry." In particular, the DSAM notes that companies have not significantly added to the number of salespeople, reported by the World Federation of Direct Selling Associations to be 3 million, but have invested more in training and motivating the current sales force. They noted new products, promotions, incentive programs, and product and business opportunity training has led to the increase, with member companies investing RM16 million (\$4 million) in training in 2005.

Many companies enter the Malaysian market as a precursor to other, larger, Asian markets. "Our distributors in the Philippines and Australia were interested in coming to the market," Montgomery says. "We know it's not as large as China, Korea or Japan, but one of the things going

through our mind is that the smaller and midsized markets are stepping-stones to the larger countries."

Shaklee's Yeap agrees with Montgomery. "The country's multicultural and multilingual society will help pave the way for future expansion to other markets," she says.

National Checks and Balances

The Malaysian government is particularly protective of its consumers and its industry. This mind-set has led to legislative requirements that direct selling companies in particular must keep in mind.

According to the U.S. Department of Commerce, "The Malaysian government often requires foreign and domestic non-manufacturing firms to take on Bumiputra [Malay] partners (usually 30 percent of share capital) and to maintain a work force that proportionately reflects Malaysia's ethnic composition." Before entering the market, Reliv spent a lot of time and resources finding just the right partner who would be in business and be an ideal, long-term associate. There are also regulations regarding the origination of manufacturing and materials, although with different percentages required.

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Malaysian Etiquette

- Handshaking is acceptable for men, but some Muslim women may prefer a polite nod and smile when introduced to others, particularly men. A handshake with a woman should be initiated by *her*. The traditional *salaam* resembles a handshake with both hands but without the grasp. Another greeting is for a man to offer both hands, lightly touch his friend's outstretched hands, and then bring his hands to his chest to mean, "I greet you from my heart." A visitor should reciprocate but not initiate the *salaam*.
- Visitors are expected to telephone before going to someone's house.
- Shoes must always be removed when entering a Malaysian home.
- Drinks (non-alcoholic) are generally offered to guests, and it is polite to accept.
- The right hand is always used to give and receive objects and is used for eating, particularly if the fingers will touch the food.
- Typical Western pointing is not acceptable. Instead, the thumb of the right hand with four fingers folded under is the Malaysian way.
- Shoes must be removed when entering places of worship, such as mosques and temples. Some mosques provide robes and scarves for female visitors.
- Toasting is not a common practice in Malaysia, especially because the majority Muslim population does not drink alcohol.

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For direct sellers in particular, the Direct Sales Act of 1993 is especially relevant. The act defines any door-to-door or mail-order sales as direct sales and sets forth many industry rules. "Companies should be mindful of the direct selling law that regulates the industry," Yeap says. "Pyramid and 'get-rich-quick' schemes are absolutely banned." Some

of the mandates put forth by the Act are similar to those elsewhere in the world: There is a "cooling off" period of 10 days in which a customer can rescind his purchase; all compensation for salespeople must be based on goods and services sold and not on recruiting; and salespeople must leave a residence or business when asked. A few of the different aspects of the Act are that door-to-door sales are restricted to certain hours and days; sellers must identify themselves clearly and produce a government-issued sales ID card; and any advertising contained in mail-order sales must provide specifics, such as the name and license of the person advertising, a detailed description of the goods, and places and times where samples can be inspected.

Anti-Pyramid scheme regulations specify that fees to become a salesperson or member cannot be exorbitant or excessive and that purchasing hard-to-sell inventory cannot be required; and companies must have buyback policies in place for distributors who terminate their businesses. Obviously, the DSAM members have learned to live within these guidelines and are happy that they are in force to protect the industry against charlatans.

U.S. Companies Making a Go Reliv

Reliv International has been in the Malaysian market for approximately three years. Malaysia is the ninth country it entered, and the company has maintained its formula for success, no matter

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Jolly Gomez (l), Managing Director of Reliv Asia, with Scott Montgomery (r), Senior Vice President of Worldwide Operations, at the opening of Reliv's Malaysia office

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where the business is. First, Montgomery says they keep it simple. The products and presentations are essentially the same around the world. This consistency is a top factor for Reliv as well, from its field communications to products, corporate approach and steadfast vision. Simplicity and consistency set up the third key: duplication. When distributors realize the business is consistent, they know that they can duplicate their own successes and that of others. The result is that Malaysia is doing well for Reliv. The company has been faced with the tragedy of the deaths of four top distributors while they traveled together, which understandably took its toll on the business. But Reliv focuses on people and knew that the business would resume once people's needs were met.

Shaklee

Shaklee has been in the Malaysian market for more than 10 years. In 2005, the Malaysian operations were the third-largest contributor to the company's revenue. Shaklee's Malaysian sales have increased 216 percent in the last six years, according to Yeap, and the distributor force has grown to 100,000, representing a 211 percent increase. The nutritional product set accounts for 80 percent of all company sales, and Shaklee has headquarters in Shah Alam, Selangor, along with branch offices in Penang, Ipoh, Kuala Lumpur, Johor Bahru, Kota Baharu and Kota Kinabalu. "Our success is due to the racial harmony amongst our distributor force, the capable and dynamic field leadership, and the strong partnership between the field and the home office," Yeap says. "They have made the Malaysian business flourish to great heights over the years."

Amway

Amway Malaysia launched in 1976 with just five employees. It had a small office and a warehouse in Jalan Ipoh. From these

humble beginnings, Amway was on its way to becoming one of the founding DSAM members and a trailblazer for other direct selling companies. It grew steadily, and now has more than 331 corporate employees who help distributors build their businesses on nutrition, cosmetics, skin care, personal care, and home care and technology products. There are approximately 161,000 distributors from all over Malaysia, working businesses and contributing to sales turnover of RM456 million (\$123 million). It was the first direct selling company to be listed on the main board of the Kuala Lumpur Stock Exchange, a milestone reached in 1996. Amway Malaysia has been recognized by *Asia Money* magazine for several of its accomplishments and was the first direct selling company to earn a three-year (as opposed to annual) direct selling license renewal by the Ministry of Domestic Trade and Consumer Affairs.

Future Challenges

DSAM President Yee noted that, in 2006, direct sellers will have to grapple with the rising cost of goods. Fuel costs, interest rates and general costs of goods are increasing, leading to moderate inflation. This could affect consumers' willingness to buy the personal care goods and core products typically the mainstay of direct sellers. The national Bank Negara Malaysia has forecast a 5.5 percent economic growth in 2006, and private analysts anticipate up to 6 percent growth. Investors and other industry players are still getting used to the country's currency independence from the U.S. dollar, as it was unpegged from the dollar in 2005.

Pundits expect the Malaysian economy will continue its moderate, but positive, growth this year, and direct sellers will likely see results that parallel the economy. But, as U.S. companies have found, Malaysia is a great proving and staging ground for expansion throughout Asia. 🌐



Shaklee Malaysia's 10th anniversary celebration