

Mary Kay Ash and Her Corporate Culture for Women

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Mary Kay Ash, founder of Mary Kay Cosmetics.

Keenly conscious of its symbolism, Mary Kay Ash wears a diamond lapel pin shaped like a bumblebee. “Aerodynamics have proven that the bumblebee cannot fly,” she says. “The body is too heavy and the wings are too weak, But the bumblebee doesn’t know that, and it goes right on flying, miraculously.”

In 1963, when she was forty-five and when most American women did not hold full-time jobs, Mary Kay (as she is universally referred to) launched a direct-sales cosmetics company run by women. From modest origins in a Dallas storefront, Mary Kay Cosmetics grew into a vertically integrated corporation with annual sales of over \$950 million. In 1976 it became the first company chaired by a woman to be listed on the New York Stock Exchange. Just how did this bumblebee soar so high?

Mary Kay’s success is based upon sound business practices combined with tenacity and original thinking—about the marketplace, about corporate structure, and about women themselves. Mary Kay built a new corporate culture based on the education, participation, and empowerment of women. Her company’s entrepreneurial structure inspired hundreds of thousands of Mary Kay saleswomen to become, in effect, small-business operators. With a home-spun management style, she boosted their self-esteem and confidence through constant positive reinforcement and material rewards. By harnessing the American woman’s economic

and productive power, she forged an economic liberation movement and flew through the glass ceiling two decades before that phrase even existed.

Birth of a Saleswoman

Born in 1918 to parents who ran a hotel and restaurant in Hot Wells, Texas, Mary Kathlyn Wagner recognized at an unusually young age that women could hold a viable role in the workforce. In the 1920s, when her father became an invalid after being stricken with tuberculosis, her mother, Lulu, landed a job as a restaurant manager in Houston, twenty-five miles away. “For all those years, my mother was the sole support of our family,” said Mary Kay, who took on the responsibility of caring for her father and running the family’s meager household. While these roles placed a heavy burden on the young girl, they offered her an unusual degree of independence. “For instance, if I needed new clothing, I had to go by myself to downtown Houston,” she recalled. “I took these Saturday trips alone, because my best friend was not allowed to travel on the streetcar without an adult. After all, we were just seven years old.”

Although she earned straight A’s and finished high school in three years, Mary Kay could not afford to go to college immediately. Dreams of higher education were further deferred when, at seventeen, she married Ben Rogers, a local musician and radio personality. The young couple had three children within seven years: Ben, Marylyn, and Richard. Following in her mother’s footsteps, Mary Kay Rogers pitched in to support the young family, but as a mother with a high school education in Depression-era Texas, her options were severely

limited. “. . . I had to have a good-paying job with flexible hours. The flexibility was essential, because I knew that I wanted to spend time with my children when they needed me,” she said.

In the mid-1930s, a woman appeared on the Rogers’s stoop peddling children’s books. The saleswoman offered to give her a free set if she could sell ten, and Mary Kay started calling friends from the Tabernacle Baptist Church. She sold ten sets in less than two days. “I didn’t have books to show them—all I had was my enthusiasm,” she said. In the next nine months, Mary Kay sold \$25,000 worth of books.

Having discovered a natural ability for sales, she enlisted with Stanley Home Products, a direct-sales housewares company. While Mary Kay enjoyed staging “shows” in friends’ homes and relished earning commissions, direct sales mainly appealed to the same innate drive that led her to complete high school a year early. “. . . Nothing excited me quite as much as company contests. It was just that old competitive spirit of mine,” she said. In 1937, Mary Kay attended Stanley’s convention in Dallas, where she watched F. Stanley Beveridge, the company president, crown a Queen of Sales and present her with an alligator handbag. After the ceremony, Mary Kay worked up the temerity to introduce herself to Beveridge and announced that she would be a sales queen the next year. And so she was.

Her talent for selling proved fortunate. Upon her husband’s return from service in World War II, Ben Rogers requested a divorce. Mary Kay was left as the sole financial support for her three children. “I had developed a sense of worth for my abilities as a wife and mother, and yet on that day I felt like a complete and total failure,” she wrote. For the next seventeen years, she raised her children as a single mother while recruiting and managing dozens of salespeople, first, for Stanley Home Products, and, starting in 1959, for the World Gift Company.

The children pitched in, with son Richard often spending Saturdays packing orders. As they grew up, Mary Kay’s children pursued their own interests. Ben, the oldest, married and moved to Houston, where he worked for a welding company. Marylyn got married and started a family. Richard sold life insurance for the Prudential Life Insurance Company. Meanwhile, Mary Kay’s life took a turn in 1960, when she married George Hallenbeck, a Dallas businessman.

Mary Kay ultimately rose to the rank of director of national training at World Gift. However, in mid-1963 she returned from a business trip to find that her male assistant had been promoted to a position above her. The slight was the worst in a series she had encountered at the company. “I was constantly being told, ‘Oh, Mary Kay, you’re thinking female.’ And inevitably, no matter how hard I tried, no matter how well I did my job, I still found myself reaching the golden door only to find it marked Men Only.” She promptly quit. Forty-five, jobless, and without children to look after, Mary Kay had lost the two roles that had defined her life for nearly twenty-seven years. She slipped into deep depression. “I have never spent a more miserable time in my life,” she said. “I just felt my life was over. I lived across the street from a mortuary, and I almost called them.”

To fight the emotional malaise, Mary Kay started jotting down lists of things she had done well and obstacles she had overcome. As she did, she hit upon the idea of writing a book on management. In it, she would distill twenty-five years worth of direct-sales wisdom. As part of the outline, she drafted a roster of factors that would define the “dream company.” And then a bigger idea sprang to mind: “Why are you theorizing about a dream company?” she asked herself. “Why don’t you just start one?”

Building a New Company Geared Toward Women

Mary Kay decided to form her own direct-sales company—a company mindful of the lessons learned from decades of working as a single mother in male corporate cultures. Its structure would offer flexibility to part-time workers and allow women to maintain their commitments to family while earning extra cash. Although she wanted to make money, Mary Kay had a higher social goal in mind. “I wasn’t interested in the dollars-and-cents part of business; my interest in 1963 was in offering women opportunities that didn’t exist anywhere else,” she later wrote.

Having sketched the outlines of a dream company, she still needed a product, and she found one in her own medicine cabinet. Back in the early 1950s, while running a Stanley Home Products demonstration party in suburban Dallas, Mary Kay had noticed that all the attendees had wonderful complexions. It turned out that the hostess sold jars of private label facial cream to her friends. The woman's father, a tanner, had used his expertise in tenderizing animal hides to create a balm that softened women's faces and hands. After trying the cream, Mary Kay became a loyal customer. "I knew that the products were special, so in 1963, I bought the original formulas from the tanner's heirs," she said.

However, her choice of products put Mary Kay up against Avon, a giant with seventy-seven years' experience in the direct-sales cosmetics market. Mary Kay found two kinks in the giant's armor. First, Avon's focus seemed to ignore skin-care products, a lucky break since she had a good one. Second, she concluded that Avon's trademark door-to-door approach was a dated sales method. Woman, she felt, had grown too sophisticated in their buying to respond to "Avon calling."

Mary Kay's sales force, or "consultants," would demonstrate the products at intimate parties, called "Mary Kay Beauty Shows," with no more than five or six guests per show. "I saw this situation as a wonderful opportunity to teach women about total skin care," she said. Mindful of working mothers' needs, she would permit consultants to stage as few or as many demonstrations per week as they wanted. If women knew enough about the products, she reasoned, and if the products were good, they would essentially sell themselves.

In response to her negative experiences at other direct-sales firms, Mary Kay's company would not sell franchises or grant salespeople exclusive territories. Consultants would drum up new recruits from their circle of acquaintances. When Mary Kay worked for Stanley Products, the company had transferred her from Houston to Dallas to develop a new market. But this move forced her to forego commissions on sales by the women she had already recruited in Dallas. "I thought that was patently unfair," she said. Mary Kay vowed that no employee of hers would suffer the same fate.

Mary Kay and her husband George scraped together \$5,000 in savings to produce a small inventory and lease a cramped 500-square-foot storefront in Exchange Park, an office complex in Dallas. Then Mary Kay set about recruiting an initial crop of consultants, while George handled the finances. Together, they filled boxes with jars and plastered labels on them that read: "Beauty by Mary Kay."

The couple's plans tragically fell apart a month before the scheduled opening of the firm. While poring over business papers, George Hallenbeck suffered cardiac arrest and died at the breakfast table. Alone again, Mary Kay avoided despair by throwing herself into her work. "To me, work and growth were the same. And without my work, I found that I had no reason to get out of bed each morning," she said. Ignoring the advice of her attorney, who showed the widow a brochure documenting the high failure rate of cosmetics companies, Mary Kay decided to forge ahead with the venture. Her son, Ben Rogers kicked in \$4,500 from his savings account, and Richard Rogers quit his job to work by his mother's side. "I worshipped the ground she walked on," Richard said.

Mary Kay didn't need much more start-up capital because she had devised a shrewd business strategy. First, she recruited nine consultants, who paid 50 percent of the retail price for packages consisting of five products: Cleansing Cream, Magic Masque, Skin Freshener, Night Cream, and Day Radiance foundation. She required that women pay for the packages up front. "This is not a lack of trust; it is simply our absolute belief in the wisdom expressed in our American system of cash-and-carry capitalism," Mary Kay said. Requiring consultants to pay in advance would let the fledgling company operate without taking on debt. Having worked in the field for twenty-five years, Mary Kay knew bad debts from salespeople often caused direct-sales companies to fail.

Beauty by Mary Kay (later Mary Kay Cosmetics) began sales on an inauspicious day: Friday, September 13, 1963. Defying all negative omens, the products gradually caught on in the Dallas area. Mary Kay wrote a

five-page consultants' guide, produced a newsletter, and encouraged consultants to spread the word about the company. Richard filled orders, dashing between the storefront and a storage area two blocks away. Ben temporarily left his job to pitch in. ". . . Richard, Ben, and I put in sixteen and eighteen-hour workdays as we struggled to do anything that had to be done," Mary Kay said. The company survived the crucial first months and began to grow and prosper.

To celebrate the close of its first year of business, in which sales totaled \$198,000, the company threw a party. On September 13, 1964, the firm's 200 employees convened in the warehouse of a new facility at 1220 Majesty Drive in Dallas. Mary Kay made enough chicken and Jell-O salad to feed the crowd, and awarded wigs to top salespeople.

This celebration marked the beginning of Mary Kay's policy to provide inspiration, enthusiasm, and material rewards that would motivate women to sell ever greater quantities of skin cream. "Women generally lack confidence," she said. "When a woman joins our company, we immediately begin to instill confidence in her." The primary means for this were positive reinforcement and recognition for even the smallest achievements. "Giving praise where it is due has become a working philosophy in every aspect of our work at Mary Kay Cosmetics."

As the company grew throughout the 1960s, the annual sales meeting—or "seminar"—grew from humble homemade chicken and Jell-O beginnings into an increasingly lavish extravaganza. Each year, hundreds, and then thousands, of women convened in Dallas to attend classes and hear motivational speakers. The highlight was awards night, when the company recognized consultants who attained prescribed sales levels, thus ascending Mary Kay's "Ladder of Success." Each rung brought a new badge of honor. Women started with ribbons, and aspired to sashes, badges, lapel bars, diamond bracelets, bumblebee pins, and, the ultimate symbols of Mary Kay success, pink Cadillacs.

Although Mary Kay started her firm amid the first stirrings of the tumultuous 1960s, her views did not mirror the politics of the era. One newsweekly later noted that "Mary Kay has liberated more women than Gloria Steinem." But she shrank from such comparisons, embracing instead a distinctly nonpolitical brand of feminism. While Mary Kay conceived of her company as "a real women's liberation operation," its ethos was more Betty Crocker than Betty Friedan. "God, first; family, second; career, third," was one maxim Mary Kay regularly dispensed to her charges.

While the company never took a formal stance on political issues like the Equal Rights Amendment, Mary Kay was a feminist by almost any definition. Her life's experiences taught her that women couldn't rely on men to be the sole providers. She likewise knew that women were capable of producing in the workplace and grew frustrated by the failure of corporate America to recognize this fact. "I can't believe that God intended for a woman's work to receive only fifty cents on the dollar," she often said. Mary Kay—the company and the woman—believed women's liberation meant economic liberation, pure and simple.

Mary Kay's nurturing company gave women the emotional support many families didn't provide. Acting as a surrogate mother, Mary Kay made a practice of sending personally addressed birthday cards to thousands of consultants and calling to inquire after sick family members. She believed these gestures had a large impact, just as she believed her small products had an endless appeal to women of all classes. "When times are bad, a woman may not be able to afford a new dress, but she can still get a lift by buying a new lip color. In fact, buying new cosmetics can often do as much for your spirits as going out for a fancy lunch," she said.

This emphasis on personal support attracted more and more representatives. Women were eager to sign on as Mary Kay consultants where the financial incentives were plentiful. The 50 percent markup compared favorably with the 30 to 40 percent commissions offered by other direct-sales firms. In addition, Mary Kay consultants could earn commissions from the gross product orders of women they recruited. The company rewarded productivity. Women who signed up a sufficient number of consultants were made sales directors, and, ultimately, national sales directors.

The Company Spread Its Wings

The year 1966 proved to be an auspicious one for Mary Kay and her cosmetics company. Despite the chaos of getting the enterprise off the ground, Mary Kay had managed to rebuild her personal life. She married Mel Ash, a businessman whom she had met on a blind date. Having attained a critical mass with sales of \$1.3 million, the company began to mature and Mary Kay undertook, with Richard Rogers, to pilot her company to national prominence.

Mary Kay Cosmetics became more defined in 1968, when it raised \$2.34 million by selling 195,000 shares to the public. The proceeds of the offering were used to buy control of the manufacturing process. Mary Kay built a 275,000-square-foot facility in Dallas, which allowed the company to make virtually all its own products. It also expanded its market. Relying on word of mouth, the company had spread throughout Texas and into neighboring Louisiana, Oklahoma, Arkansas, and New Mexico. In 1970, consultants in these five states accounted for 90 percent of Mary Kay's sales. Encouraged by this success, the company embarked upon an ambitious expansion program, building distribution centers in California, Georgia, New Jersey, and Illinois, which also served as facilities where regional directors could train new recruits by the dozen.

With several thousand employees and \$18 million in sales in 1972, Mary Kay Cosmetics was one of the nation's largest private employers of women. Mary Kay publicized her company by using pink trucks to ferry products from the Dallas factory across interstate highways to the regional centers, by awarding more and more pink Cadillacs, and by buying a spanking new office building. True to its tradition, the company paid cash when it bought the eight-story, \$7-million glimmering glass building in Dallas in 1977. The building housed a growing central administration, which was run by Richard Rogers. He installed a sophisticated computer system to keep track of the activities of consultants operating throughout the United States.

Between 1963 and 1978 (a year in which Mary Kay's more than 46,000 consultants peddled over \$50 million of product), sales grew at a 28 percent average annual rate. But the company's fundamentally sound business formula hardly changed. It still required cash up front for inventory. "There are no accounts payable and no accounts receivable," Richard Rogers said. And sixteen years after the company's founding, the five basic skin-care products still accounted for fully half of the company's sales.

Although Mary Kay slowly detached herself from the firm's day-to-day operations in the 1970s, she continued to blaze new trails. When her company switched its stock's listing to the New York Stock Exchange in 1976, it became the first NYSE-listed firm chaired by a woman. And Mary Kay remained a crucial and effective leader. Widowed when Mel Ash died in 1980, she spent much of her time meeting and training groups of consultants. She invited new consultants to her house, and, over homemade cookies, told her inspiring personal story over and over again. She eventually wrote it down, and it was published in her autobiography, *Mary Kay* (1981). She took top sales producers on trips to London and the Caribbean, and traveled around the country, making contact with as many consultants as she could. "I believe in the personal touch, because it makes every human being feel appreciated," she wrote.

In the 1980s, however, the company that had created so many opportunities for women became a victim of its own success. The percentage of women participating in the labor force rose steadily from 38.3 percent in 1963, when Mary Kay Cosmetics opened its doors, to 53.6 percent in 1984. As other corporations and industries gradually opened up to females, women found positions in professions like law, journalism, and real estate. But some of those flocking into new careers continued to sell Mary Kay products. In 1984, one-third of the company's 192,000 consultants had other jobs. Even so, observers believed the demographic formula responsible for Mary Kay's success was unraveling. "Red ink was flowing in Mary Kay's kingdom," *Forbes* wrote. "Mary Kay's main problem was that many of the commission-only saleswomen Mary Kay had relied on to peddle the firm's cosmetics had entered the workforce."

This argument gained credence when sales fell from \$323 million in 1983 to \$260 million in 1985. As the market punished the company's shares, Mary Kay Ash and Richard Rogers saw an opportunity. Overcoming their long-standing aversion to debt, mother and son borrowed heavily to buy the 70 percent of the company's shares they didn't already own in a \$315-million leveraged buyout. While some analysts believed too much was paid for total control, the faith the mother-son combination had in their brainchild was rewarded. Under Richard Rogers's direction, the company

offered higher commissions and bonuses and focused greater attention on overseas expansion. Mary Kay Cosmetics quickly rebounded; by 1991 the company's 220,000 salespeople tallied \$487 million in sales.

Regaining Control of the Company

In 1985, when Mary Kay Ash and Richard Rogers took Mary Kay Cosmetics private in a leveraged buyout (LBO), they employed a financing technique that became increasingly popular as the decade wore on. The idea behind the LBO is relatively simple: a company's management borrows heavily to purchase its shares back from the public, and then pays down the debt either with cash flow or with proceeds raised from selling assets.

As the company's stock languished in the low teens in 1985, Mary Kay and Rogers, in May of that year, offered to buy 70 percent of the outstanding shares they didn't already own for about \$315 million. "We decided it would be in the best interest of our people and our customers if we got out of the stock market," Mary Kay said. After the company's board of directors rejected the offer, the mother-son duo raised their bid in July. In December the board finally approved the transaction.

The deal called for shareholders to receive \$11 cash and a fifteen-year debenture with a face value of \$8.25 for each of the 21 million common shares they held. Holders of the debenture would receive no interest for the first five years, but would reap 15 percent annual interest payments thereafter. Since analysts assigned these bonds a present value of \$3.50 to \$4.00, the bid was valued at between \$14.50 and \$15.00 a share, or between \$304 million and \$315 million.

The debentures raised between \$73 million and \$84 million. But the company needed \$231 million to pay for the cash portion of the buyout. And while Mary Kay Ash loathed debt, borrowing was the only way to conduct a transaction of this size. So with the help of their financial advisers, Mary Kay and Richard Rogers came up with a financing package. It consisted of an \$81-million loan from a syndicate of banks, \$60 million raised by selling senior notes to institutional buyers, and \$90 million from the company's existing cash balance and credit lines.

The move made Mary Kay Ash and Richard Rogers largely independent managers of their company, and it also meant the value of their holdings would no longer be affected by the whims of the moment. "Most important, we are not adversely affected as investors buy and sell in an ever-fluctuating stock market," she said.

Entering its fourth decade, the company has managed to maintain a youthful enthusiasm among its sales force. And nowhere was the Mary Kay enthusiasm more evident than at the company's thirtieth annual seminar in the summer of 1994. Almost 40,000 women and a few dozen men (2,000 of Mary Kay's more than 425,000 consultants worldwide are male) convened at the Dallas Convention Center. They came to celebrate another record-breaking year, one in which sales totaled \$850 million.

Consultants made the pilgrimage from Oregon, Oklahoma, and Ontario; from New York City and small towns in Nebraska; from Russia, Japan, and the other twenty-one countries where Mary Kay consultants operate. Housewives rubbed shoulders with Harvard MBAs and other professionals—about two-thirds of Mary Kay consultants hold full-time jobs. New recruits who had earned \$5,000 in commissions sat next to national sales directors whose incomes topped \$500,000. In between the sessions on bookkeeping and leadership, the awards ceremony and motivational speakers, the conventioners could take a bus to the corporate headquarters and visit the new Mary Kay Museum. Presiding over the entire affair was the company's legendary chairman emeritus, now a seventy-six-year-old. As usual, Mary Kay helped dole out \$6 million worth of prizes and awards and personally crowned four sales queens with rhinestone tiaras.

Even though the convention center stood just a few miles from the warehouse where Mary Kay held its first awards ceremony, the distance could hardly have been greater. Mary Kay Cosmetics is no longer a tiny dream company. It's a sophisticated, integrated firm that controls 10 percent of the U.S. facial skin-care market and 8.5 percent of the facial color cosmetics market. In 1993, a Texas magazine estimated the combined net worth of Mary Kay Ash and Richard Rogers at \$320 million. Mary Kay's lengthy flight—that of the woman and the company with which she is inextricably linked—has been turbulent, with many bumps. As *Forbes* noted: "Occasionally the bumblebee goes in circles. But so far, it has always found a way to right itself."