NORTH TEXAS STATE UNIVERSITY
ORAL HISTORY COLLECTION
(BUSINESS ARCHIVES PROJECT)

NUMBER

OHB4

INTERVIEW WITH

RICHARD ROGERS

NOVEMBER 11, 1974

PLACE OF INTERVIEW: DALLAS, TEXAS

INTERVIEWER: DR. DONALD L. CARUTH

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APPROVED: [signature]

DATE: 5/26/76

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Business Oral History Collection

Richard Rogers

Interviewer: Dr. Donald L. Caruth

Place of Interview: Dallas, Texas   Date: November 11, 1974

Dr. Caruth: This is Dr. Donald Caruth recording for the North Texas State University collection in another of our series with selected business leaders. Today I'm interviewing Richard Rogers, President of Mary Kay Cosmetics. The interview is taking place in Dallas, Texas, on November 11, 1974.

Would you give me a kind of quick biographical sketch of yourself?

Mr. Rogers: It doesn't amount to a whole lot because I've spent my whole life here at Mary Kay Cosmetics; at least my entire business life of the last eleven years, dating from the current time in '74 back to 1963. To give you a little background into my early days, I was born in Houston, Texas, and I moved to Dallas at, like, age six, and moved to St. Louis and lived there for a year, then back to Houston at about eight, and went to school there. And then when I was thirteen, because of Mary Kay's involvement with World Gift Company, which is, you already know from a previous interview, followed thirteen years of experience with Stanley Home Products. She was their national director of training and education for World Gift, and did quite a lot of traveling. As a matter of fact, there was one point in time, I believe it was either Look or Life magazine was proposing to do an article on her at that point in time, which would be like late fifties, as one of the world's most traveled business women. Well, in conjunction with that, my family life, what occured was because of her travels . . . I went to Allen Military Academy, and I went there when I was thirteen years old, and stayed there for four years until I was seventeen. I left there in the middle of my senior year, moved to Dallas, Texas because of . . . of my longing for a co-ed education (chuckle) so to speak, plus I had found out that it took twenty-one solid subjects to graduate at Allen Military Academy, and only sixteen to graduate from high school in Dallas, and I had been stuck in military school since I was thirteen for four years, and besides I wanted to play (chuckle), you know. So . . . I was a rather unruly little critter, and very . . . very much a mind of my own, I guess by virtue of the way I had been raised. So I left there and spent my last half of my senior year at Hillcrest High School here in Dallas. When I registered at the registrar's office at Hillcrest High School I had already graduated. The solid credits that I had at the time equalled their graduation requisites to the extent that the only thing that I had not taken, which was one of their required courses, was one semester of civics. I took one semester of civics and woodshop, and metal shop and physical education, and all those other . . . geometry, I think, because I liked . . . I liked mathematical sort of things, and . . . at any rate I had already graduated, and I did graduate from Hillcrest High School. As a result of that, I've got a lot of incompletes in certain subjects that I was taking at Allen Military Academy that I didn't complete the last semester of, such as physics, and chemistry, and things of that nature. So when it came time to go to college, I didn't realize it at the time, but I had ruined myself. I went over to Southern Methodist University and took the required test which was a separate testint thing, I've forgotten what you call the college entrance tests that are given not necessarily by SMU.

but by everybody. It's got like GTC or something, whatever it is.

Caruth: Some alphabetical soup?

Rogers: Yes. Right, and . . . at any rate, they declined because of the incompletes that I had in my senior year. Even with a full explanation they didn't like the answers, so I went instead to North Texas State University, and I was at North Texas for . . . the year of 19 . . . I believe it was the '61. Yes, I think. Yes, it was the '61 year. And then in '62 I went one semester and then the second semester of '62 I joined the Marine Corp Reserves, and I went through six months of boot camp out in California, and then back to North Texas State University. Then I moved to Houston at the conclusion of the school year of '63, and got married, and at that time, by the way, I was waiting for IBM to install a time-sharing computer, I had fanagled myself a job when the computer installation was installed to be the . . . this was one of IBM's first projects of time-sharing, and what they were going to allow me to do is to start off as a scheduler, scheduling various businesses on and off the machine. I was not qualified as a computer programmer. However. I had taken all the date processing courses at North Texas, and so on for a couple of years, and was very intrigued with the machinery and statistical date and how things worked. Mary Kay accuses me of having a computer brain of sorts. But at any rate, that's what I was going to do. And in the interim I was working for Prudential Life Insurance Company. I went through their training program and at that point in time I was the youngest . . . ordinary agent that Prudential had, I was twenty years old, whereas almost all of the other younger people prior to that had been stuck into the debit men collection type thing for an apprenticeship, but I wasn't doing that. And . . . then when Mr. George Hallenbeck died, who was my stepfather, I came to Dallas, which was a very tragic situation, which I'm sure you already have tape from Mary Kay. They had all these grandoise plans of starting into business, and . . . I came to Dallas for the funeral. Mary Kay's attitude was that of sort of giving everything up, and "crawling" to get her job back at World Gift Company, and she was very upset because of his death, and so on. But, nevertheless, I had remembered all of those years and about all the things that she had always told me. Things such as "Somebody ought to really take this cosmetic line and do something with it." These are the products that she, I am sure, told you she had been selling for quite some time to friends all over the country and so on, because she was one of Mrs. Spoonmoor's guinea pigs for a number of years (chuckle). And, so I in a . . . in a very . . . audacious way I suppose, convinced her that she really ought to do those things that she . . . that she shouldn't hold back, that she had twenty years of experience in direct selling, and she should certainly put it to use. George Hallenbeck had designed for her, really, his whole marketing concept centered around the get-rich-quick franchise deal. And she and he had disagreement about that. And so after the funeral was over I stayed on for a few days and she and I began to set down in writing a plan through which she might consider really getting into her own business rather than "crawling" to get her job back at World Gift Company. She had burned a few bridges behind her when she left apparently, and didn't want to . . . to go through the humiliating pains of getting back into the same box that she had been in for so long. Basically, that was a controlled environment. Mr. Dick Kelley controlled that company and didn't want it to get any larger than a certain size so that it wouldn't be troublesome to his life. He wanted to . . . he wanted to make so much money a year, and that was plenty for him, and it was sort of a comfortable nitch. And he wanted to stay in it and he wanted to control the business and the people in it in that nitch. Remembering now that these are my viewpoints, not necessarily Mary Kay's.

Caruth: What was Mr. Hallenbeck's background?

Rogers: He had been with . . . with Holiday Magic Cosmetics and . . . and with . . . no, excuse me, it wasn't Holiday Magic. It was Ovation Cosmetics and the same principles of that company started Holiday Magic, and he had been with a company by the name of . . . no, that's incorrect too. He was with the company that proceeded Ovation, which was Neutro-Bio Corporation, which was a food supplement program, and they sold franchises and distributorships. At the time of his death he was also working on some deal with S & H Green Stamps. Real promoter-type guy in his thinking processes. But anyway, there was a conflict there because Mary was not promoter oriented. She was always the person that was in favor of the person in the field. All of her viewpoints had always been along the lines of the people in the trenches, because that's where she had spent her career for the most part, was in the trenches. Even when she was national director of training and education for World Gift Company, she was total liason between the sales organization and the corporate entity. And it was always a bridging effect that she had to . . . put herself in that position of trying to understand the needs of the sales people and communicate those to the corporate headquarters. But it was a very frustrating bridging effect, because she was never able to get the corporation to implement the programs that she thought people in the field wanted. So it was . . . it was always a terrible situation for her, very frustrating situation for her. But at any rate, we sat down and we began to look at certain things which you've already covered, for example, the decision to go into business for yourself. I think . . . I think this particular period of time . . . was the . . . was the formative stages of really making that decision. She . . . she felt certain . . . felt inadequate in certain areas. . . and she probably told you this because it's one of her favorite phrases. She said, "I was always the gal that could make a sale, but never could add up a ticket." You might find that on her transcript somewhere because that's one of her . . .

one of her famous thoughts, but it sums up rather well her feelings toward the business world. She wanted . . . she was confident that she could handle the sales and the organization end of the business and . . . and her only needs at that time were structural. And by structural I mean the corporate entity itself, the wherewithal for budgeting and planning and economic well-being so that while she was involved in her sales endeavor the whole thing just didn't go down the tube and belly-up from an economic point of view. You know ignorance is man's greatest fear and probably the thing that . . . that most people entering into business fear more than anything else is just the sheer paper-work problems involved of the requirements of say a corporation. They don't know the ins and outs of simple things, such as reporting FICA, unemployment compensation, sales tax reporting, record keeping, things of that . . . those things that they don't understand about the business world are complexing to them. They fear them. If they knew how simple it was, they'd just go right into business. But the fact of the matter is, those things actually scare people I think, and prevent them from entering business. Ignorance is always . . . has always been man's greatest fear. It's the unknown.

She was a little bit worried about the organizational problems of getting the products manufactured and quality controlled, getting them formulated satisfactorily, keeping the inventory stocks like they were supposed to be, computing the cost of goods sold verses the selling prices of products, and is that enough profit to cover the overhead, and what the hell is the overhead. She understood absolutely nothing about fixed and variable expenses as far as keeping the business controls on, and she was a little afraid of making some marketing errors in the area of designing the marketing plan that she would have to live with. She didn't understand the complexities of accounts receivables, but she did understand that accounts receivables had, for example, accounted for losing some of the best people that she had ever met in her career, especially with World Gift. It was one of these situations where the best sales person is always the type of person that is not detailed minded. I mean, that's just a general characteristic. So what happens, she goes out in the field and here's this gal doing $500 a month of sales her first month and $1,000 a month in sales her second month and this gal's the apple of Mary Kay's eye, you know. She's the new gal in Sioux City, Iowa, or wherever it might be, and the one that Mary Kay thinks is really going to be terrific. And lo and behold, the gal gets herself in debt to the company; she makes a profit, but of course she goes out and buys that new washing machine, that refrigerator, and that new dress, and then eventually comes to her husband and says, "I've got to borrow some money." And her husband says, "Well, here you've been telling me about all this money you've been making (chuckle), where is it?" You know. It's the typical family situation. Two days later comes a notice from the company that if you don't . . . your account's past due, and if you don't pay it, we're going to terminate you. The girl gets . . . gets all upset about the company dunning her for the money, and it creates a very unruly situation, and often time leads to the salesperson saying, "Well, the company can just shove it. All I was was two days late, and they didn't have to send me that nasty letter, and so on and so forth." When you involve women in the business world, you better be sensitive to the needs of those people, and how they think. And so one of the things that we planned in our planning session, and I'd like to mention this planning session we had, because it was on-going for several weeks. It was a . . . it was a planning session where we sat down and we discussed the problems that she had encountered in direct selling over her years of experience.

Caruth: This is August, '63 or September, '63?

Rogers: August, '63. Into September . . . early September of '63. Basically, what I did is I contacted Elwood Goodier, which was Goodier, Incorporated, perfumers and chemists in Oak Cliff. And getting approval on all things from Mary Kay, got everything in order in terms of how many cleansing creams we needed, what color jar they were going to be in, what color carton they were going to have, what kinds of labels they were going to have, and so on and so forth, and coordinated that plus the production of literature, I went to a little company called Pease's Printing Company down on McKinney and got him to print up price lists and instruction sheets and so on. I got Mary Kay to do the original draft of our first consultant's training manual which was a joke, because it was only several pages long, and you know the first page was the welcome, so it (chuckle) was kind of a joke. Then I convinced Mary Kay that we needed a sound banking relationship. So I opened some accounts, business corporate accounts at Exchange Bank here in Dallas. I found a good attorney. I found an accountant, a CPA, who later turned out to be a problem, but we'll get to that later. But in the formative stages I got a good lawyer and a good accountant. And I got all of the very, the paper work mess, red tape you can call it, all lined up, and convinced Mary Kay that I could run that end of the business. And then all she had to do was concentrate on building a sales organization. But during these stages we also went through some very important learning processes, very important for me, and very enlightening for her; such things as we got involved in the marketing plan of the company. We discussed thoroughly recruit bonuses and how important they might be in terms of recruiting, what value they played. . . and she told me about plans where companies would pay a recruiting bonus of maybe one per cent or two per cent. It was such a small number that it was . . . it did not really fall into the category of incentive motivation because it was so low that nobody really would use that as one of their primary motivations for recruiting. It needed to be higher, so we would vascillate from well, how high, you know . . . six per cent, no that's too high; well, three per cent, no that's too low, and then back and forth until we came with her opinion of four per cent.

Then it was my job to make that four per cent work in the accounting processes of the difference between cost of goods sold and the selling price and whether or not it would work in terms of a légitimate expense. And then we talked about the position of field management, and what kind of person do we need for field management. Do we want to go to the George Hallenbeck route and sell franchises, and she was emphatically against that, absolutely not. It was one of her big turmoils with George back when they were thinking through some of these beginnings. She said, "No," that if you create a situation where a guy just plunks down his $10,000 and he owns the franchise, he doesn't know a damn thing about the business, and yet he's the girls' boss in that respective city, is a very unhealthy situation. That the person . . . it did not insure that the person was qualified to do the job, and through her years of leadership she realized to the inth degree how important it was that the individual within a certain community who was running that respective sales organization be qualified. And so then that led to questions like, "What do they need to do to be qualified?" And so we began to form a list. And she said, "One, they need to have their feet on the ground and be with the company for a while." So we put, well, "How long before they could be eligible for a management position?" "Well, you know a year." "Well, no, in some cases that is too long." "Well, three months?" "No, generally that's too short." A very successful sales person coming into the business in three months they think they know everything. They find out a year later, they don't, that they're just lying . . . (chuckle). But anyway we settled on six months. Then we went to the second item. And Mary Kay felt strongly that the person in management positions in the field had to be able to sell herself. In other words, if she could not go out and hold a successful series of Mary Kay beauty shows, build personal clientele, and build a business at the bottom rung selling in the business, then how in the hell was she going to teach other people how to do it, if she could not do it herself. So we established requisites, like $400 wholesale cash-in average for that six month period. And then we said, "Well, what else does the girl need to do?" And Mary Kay would say, "Well, she has to be the kind of person with a magnetic type personality or an ability." And there are various types in this category that can recruit, that can bring other people into the business. Because if she is appointed the position of a manager in a respective area and she cannot recruit and she cannot bring people into the business, how is she going to build it? And if she can't build it and has to rely on other people to build it, then she's not leading those people. Here just like in the sales, if she can't recruit, she can't teach other people to recruit. So we finally settled on that she should be able to bring at least ten people into the organization prior to entering what we now call Sales Director which was . . . which is nothing more than a field management position. So, we began to . . . as you can see we began to establish requisites. And then she said, "Well, now sometimes people can sell," she had noticed, and sometimes they can recruit, or get warm bodies so to speak, but they have no leadership capability. They might be able to meet the requisites of being with the company for six months, selling so much per month for six months, recruiting ten people into the organization, but then they haven't proven any leadership ability." And so she thought that it would be important that they spend a period of time in qualification . . . to establish a period of qualification, which we finally did establish, which was three months of qualification, where this girl would prove her leadership ability by taking her and her personal recruits and leading them through certain production quotas . . . to prove that she had leadership capability. Mary Kay expressed that some of these people could meet the initial requisites prior to entering qualification, but in terms of leadership, they couldn't lead the people in silent prayer, you know. So it was important that they serve an apprenticeship during the qualification period to prove their ability. So we established three months of qualification along with some recruiting requisites and sales requisites that they had to achieve before they became a Mary Kay sales director in their area. So, actually what we're into here is the item you have on your list and that's development of your firm's marketing strategy. All of the firm's marketing strategy came from Mary Kay's personal experiences over the years. If I had to summarize, I would say that she took all of the good things in the area of marketing that the company did over the years and all the bad things and threw the bad ones out and kept all the good ones. Then took the good things that they did and actually improved them by increasing commissions, by making the positions more profitable for people, and so on. I remember a lengthy discussion; it probably went on for at least a full day, for example, on what happens when a consultant qualifies for a field management position and branches off from another unit. What kind of compensation does she get? And we approached this not from a standpoint of when she branches off does it drain the parent unit, but from a standpoint of is it structured in such a manner as to provide an incentive for the parent unit to want to get these branch-offs, because that's where the growth comes from. Most of the companies felt like their marketing systems were designed so as to allow a person to qualify out from under someone. It was a pulling away situation, moreover than creating the proper atmosphere conducive to motivation where the parent unit director was trying to get these people to create their own units. And we came up with the senior director program, which is . . . I don't know if you got into marketing that deep. Did you . . . did you get the four per cent off-spring commission?

Caruth: We went into that somewhat.

Rogers: Other companies, for example, had paid two per cent for one year, and then that was it. It was a transitional payment that allowed the person to qualify out from under someone, but there was no incentive there for a unit director to try to build off-spring units. Now, our marketing systems goes on this position of area director, which is nothing more than a senior director with ten or more off-springs. We feel that when a senior director has ten or more off-springs, she's too valuable to us to be working with consultants. She's got too much experience. She should be working with management, teaching those ten off-spring directors how to become successful as she has become. In other words, the emphasis should change there from management of sales personnel to a manager's manager. And here again it also creates a position for young up-and-coming managers to work towards, which gets them goal oriented. So, we really got into all of this, and there are reasons, good strong marketing reasons, behind every item in our commission program. Now, over the years then there have been various minor changes, let's call them fine tuning. But there haven't been any dramatic reversals of our intents, nor dramatic changes in our structure. Our structure has not been altered, but only fine tuned over the last eleven years. We sort of worked the bugs out. Most of the fine tuning came in the areas of not changing the requisites, but moreover in the areas of writing the rules to the requisites. So it's closed loopholes, which we encountered in our formative years. So that's réally the . . . that's really the area that . . . that gets into a couple of subjects, the decision to go into business for yourself for example, you asked her. I am sure she had viewpoints. I'd be quick to tell you that as we entered all these discussions, as she drew upon her experiences of the past, and as we took these problem areas that she saw within the companies that she had worked for, and as we set them down on paper, and as we wrestled and grasped for solutions, and as we found them, and as we worked them out in logical sequence, and as we proved to her in dollars and cents that from cost of goods sold to the selling price, without creating the situation where the retail price was past what the consumer would bear, that there was enough money to pay for all these things that she thought, because she had never been inside the book work of those companies, you see, to really look into their P and L, because they were always quite private. When I proved to her that she could accomplish all of the things in the area of marketing that she wanted to, here again knowing on which side of the spectrum she fell, she was always on the side of the sales organization in the field. She wanted everything that we did to be in their best interest and to be conducive to motivation. As I proved to her that these things could be accomplished and she could do them like she wanted to do them, her confidence began to build . . . leading to that ultimate decision of going into business for herself.

Caruth: Let's go back for a minute and look at your decision to go into business with her, because obviously there was some risk on your part of giving up a good job.

Rogers: Let me tell you. Well, I didn't give up a good job. The computer that I mentioned earlier had not been installed. It was one of those situations where it was supposed to be operative like in August. That date got changed in June to about November, and then by August it was changed to January (laugh). You know, it was one of those things on a computer installation that never goes on proper schedule. It doesn't take a lot of interrogation on your behalf to get the answer to that question out of me. Even though my relationship with my mother was not a normal one, in other words, I was sort of my own from thirteen and with no . . . without a normal home life at all to speak of, it was an opportunity. And over those years I observed my mother's ability in the area of managing people, organizing sales organizations, you know, I observed them on a first hand basis because if she didn't do her job efficiently

I didn't get shoes, nor did I (chuckle) have anything to eat. So it was a real one-to-one observation over those years, and I was convinced by the time I was twenty years old that my Mother was the best sales organizer that the world could ever ask for. I was immensly proud of her, and here it was, and we didn't have a normal mother-son relationship, and here was an opportunity for me to join forces with her, and draw upon those talents. And, of course, when you're twenty years old, you're not afraid of anything, and I had absolutely no fear of failure, none whatever. Plus, I didn't have anything to lose, you know. It was her money that was going into the deal, and she didn't have much to reward with either by the way. My starting salary was $350 a month as I remember. And I had a Corvette sports car at the time which seems like a rather high roller car, but it was an old one. It certainly (laugh) wasn't a new one, and I sold that car and bought a junker, and I put about $1,200, $1,400 whatever it was, dollars difference between the one I had sold and the one I had bought, in the bank, and I used about $150 a month to supplement what I was being paid to make ends meet, because I was being paid $350 a month. But I had . . . I also had a tight set of books that said that we could not draw more than X dollars out of the business during the first year of operation, which is the stub period of '63 going on into '64, or we would be running in the red, or we would not have sufficient money for inventories, etc. Now, she mentioned to you the wig business, I suppose. I don't want to spend a lot of time on it, because it's unimportant, but it did play a significant part in the early stages of the business, and the significant part that it played was that Mary Kay convinced me that it took time and patience to build a viable sales organization. I mean you just don't run a bunch of ads in the newspaper and recruit a whole bunch of really cruddy people and stick cases in their hands and put them out cold calling. If you did, you would get a . . . let's say ranking on a scale of one to ten, you would get a caliber that was preponderent in your organization of say five on the scale. And then as you set up incentive programs through which those people would recruit other people, those people would recruit persons like their caliber. And once you got the ball rolling, you would never, ever in the entire history of your career, ever get out of that caliber of five on the scale. But if you were selective, and you really wanted quality not quantity, which was what Mary

Kay always thought, you would recruit persons in the caliber of eight or nine on the scale of ten. You wouldn't shove them out as if they were warm body units, but you would train them. You would train them to the extent that their attitude was that of being a professional, and those people as they recruited would recruit like caliber persons, and so you had to be careful about the quality. Let me mention something else, too, that there's some tremendous concept behind the Mary Kay story that is very important because it's sort of a catalytic agent around which all these other things that we talk about work, and without it they would not. And that is the basic concept of the prestige Mary Kay beauty show. You see, the direct selling companies that Mary Kay had worked for, for years were in my estimation, and in her estimation, a peddlar's environment. It was a company like Stanley Home Products, for example, with 350,400 items in their line ranging from combs to brushes to mops to brooms to squeeges to floor polishes to furniture polishes to cleansers to super-duper washer dryers to hand towels, to God, you name it, you know. Real dog and pony show approach to direct selling. And their displayers they called them would go into the home and they set up this humongous array of products, super-duper cleaners, and the environment at their party plan they call it, selling, would be one of "this week we have on special this beautiful yellow fatted pid." And for those of you who can't see, I'm holding up a little yellow paper weight (laughter). And if you buy two of those this week, our special this is a paper clip holder, absolutely free, you know. And it was a deal and price and gimmick and this is special and that's special and . . . "Let me show you how this cleans, honey. You've got a spot on your carpet somewhere. Let me show you how good this thing works." And it was . . . it would remind you of the old peddlar's atmosphere of a guy in a wagon, and he comes into town and he opens up his doors, and he shows his wares. The only difference is that, the dog and pony show I call it, which is just sort of a little nick-name phrase I've given it because it describes it somehow, the only difference is, it occurs in the home. And a party was one of those damn things that your wife went to and tried to buy some little something so she wouldn't embarrass the hostess which was one of her best friends. It was a peddlar's environment. Mary Kay, through her years of frustration, said to me something one day that I never have forgotten, and it was back in the formative days, and it was a statement where she said to me, emphasizing the patience quality approach, she said to me, "That on occasion as she had worked for these other companies, she would run into someone who she thought would really be good . . . not just as a scales person, but had management capability, could really be good with Stanley Home Products, World Gift Company, whatever, you know. World Gift was not different in their approach. They had 500 imported nick-nacks that you hung on the walls, and her job was to write a little story behind each one of them or something, just so it would have some class. Tell the story of a Hindu priest shoe, you know, and what it was was a damn little brass ash tray, but nevertheless, it had history. It was a dog and pony show, too. But she said to me these words. On occasion she would find someone that she thought would really be good, and inevitable that recruit would ask her, Mary Kay, the question, "Mary Kay, what's a gal like you doing selling for Stanley Home Products?" It was always a beneath-you atmosphere that prevailed. Now Mary Kay had two things going that were very important. One, in the area of concepts, she realized that the beauty show presentation must be a professional teaching session, not a selling session, wherein the persons present at the Mary Kay beauty show were there to learn, and to be taught skin care and make-up artistry, not to be sold, but to be taught, and the entire presentation of a Mary Kay beauty show is basically the same today as it was years ago in concept, and that is the girls start right in with the first item, cleansing cream. And they teach those women present the proper way, and when and how and how much to use for cleansing cream. And they go all the way through our basic skin care program, which consists of only five products, and they program the woman in a good plan of personal hygiene. We call it basic skin care is what we call it. But they literally teach a woman what she should do every day, every week, every month, and every year to establish a good program of personal hygiene, which we call basic skin care. And then they also teach her the latest little things in the area of make-up artistry in terms of, for example, where a woman's eyebrows should go based on her facial configurations and they show her how geometrically certain lines run certain directions, and your eyeball, and your pupil, and so on, and this should be the high point in the brow, and so on. And that little old lady sitting there with those peek-a-boo eyebrows, you know, that's been putting them on that way for years, and she isn't about to change for anybody, and none of her friends even though they know it looks horrible, have ever had the guts to tell her, is taught the proper procedures. At the conclusion of the Mary Kay beauty show all they've done the whole session is teach in a professional atmosphere. I like to think that a Mary Kay beauty show is like a college freshman home economics class, and today the subject is skin care, and the person teaches. We only have some twenty some odd products: I think twenty-seven, eight, nine, somewhere in there products in our whole product line, so that we can certainly train our people in a proper demonstration of all those products. Our people know those products backwards and forwards. Whereas in other forms of direct selling where there are three or four hundred products in a product line, hell, they've never held in their hot little hand more than a hundred of them. There are three hundred products perhaps that the person has never ever seen except in a color catalog. Now how can she profess to be a professional and teach. Combine that concept with the fact Mary Kay realized that the American woman starting in the early sixties, well, figure '63, '64, '65, and on up to 1970, the American woman was becoming far too sophisticated for a dog and pony approach to direct sales where you simply show your wares, price, item, deal, "Have we got a special for you, honey," approach to direct selling. She realized it from the viewpoint of the consumer, and she realized it from the viewpoint of the salesperson because you could go out and recruit, the . . . you know, on a scale of ten, a number nine gal with that kind of caliber and she isn't going to go out in a peddlar's atmosphere of direct selling and last very long. Nor is she going to knock doors, nor is she going to have to have a program with involvement where she goes in as a professional to teach, not to sell. That's <u>very important</u> to the concept of the beginning of the company. At any rate . . . those, back to wig business . . . I realized that because Mary Kay had all those beliefs rolled into one total package of her dream, which is what it was. It was a dream for a prestige sales organization, wherein the people were of utmost importance, as a golden rule foundation of the company, and she wanted quality, and she wanted fair . . . she wanted a tremendous amount of opportunity to make a lot of money, and I am sure that she told you that some of directors are making thirty to ninety thousand a year, so you know . . . she had to be able to believe that dream herself. It couldn't be a pie in the sky, blue sky approach to try and to sell marketing. It had to be real, and it had to work. And by the way, she held me accountable and responsible that it would work in all (laugh) those early years, and not in a joking fashion, very seriously that it would work. And if it would not work, I would find a way to alter it to the point that it would work, that those people would be rewarded commensurate with their ability. Okay? But she realized that it took time to get something like this off the ground. You don't buy a sales organization, you build one from scratch. You start with one person, then you go to two, and then four, and then to six, and then to eight, and then to ten, and twelve, and hopefully with a lot of hard work, you get it up to around seventy-five or a hundred, then perhaps some of your marketing incentives begin to take hold among your best sales persons to the extent that those persons develope a positive mental attitude that they are, for themselves, going to become the sales manager in Houston or whatever, or in Fort Worth, in Tyler, and Longview, in Dallas, wherever, to the extent that they become motivated to recruit other people through the requisites that we described earlier to achieve that position of sales manager, or to be the Mary Kay of Fort Worth, or to be the Mary Kay of Denton, or to be the Mary Kay of Houston, or Tyler, or Longview, or Bossier City, Louisiana, or Shreveport, to the extent that the whole atmosphere is conducive to motivation and they are building businesses for themselves to be paid commensurate with their ability. That's what makes the thing mushroom and grow. I mean it's either right or it doesn't work, but the formative stages, the first grade on a scale of nine caliber of a sales organization is extremely important, because they beget their own like in terms of caliber, and Mary Kay convinced me that it was going to take a long time and a great deal of patience to build the caliber of organization that she wanted patience to build. She didn't want a bunch of warm bodies, no matter how much I told her we needed the money, and so we had to have a transitional sort of thing. We had to have a sideline business that would make a profit so that we could stay in existence and pay our light bill and pay our overhead, and our secretaries, and make sure that our inventories were up to snuff, and have enough money to stay ahead of the game during this formative period, and so we needed a vehicle through which we could hold the fort, so to speak, until that nucleus of an organization began to really jell into some long . . . to a point where it had longevity, and it was self-sufficient as a growth . . . as a nucleus of its own, so to speak. And she selected fashion wigs. It was her idea. It certainly wasn't mine. She had been very interested in fashion wigs. At this particular point in time they weren't in any department stores. I mean, even Nieman Mark-Up didn't carry them. She . . . I think there was like . . . there was one other store called Chez Femme and a bunch of queer little Frenchmen ran the thing. Nothing against the French, but these guys were really something to behold. But fashion wigs cost $350, and it was a very exclusive form of business that she thought blended rather well because she thought that as these prestige people would come in with the interest in fashion and wigs, she would find potential recruits for the cosmetic company. So everything was in tandem, you know. It was really a nice vehicle and it was very profitable. I did a little work in the area of looking at costs, and there was a company by the name of Fashion Tress, Inc., which was headquartered in Florida; Miami, Florida, that was importing European handmade wigs, and you could buy them for like $65 and sell them retail for like $300. There was a high risk in the business, a high return of merchandise, because it's a very difficult thing to take a wig out of a box, and cut it, and style it, and block it, and fit it, and custom it, custom-make it into something that a woman will really think looks good on her. And I . . . you know, brought in the promotion. We had Renee of Paris and a big grand opening, and we served champagne and I hired this hairdresser from a salon, and I hired a salesgirl that was just . . . a closer is what she was. (Laugh) Boy, you know he would come in and he would style this wig on this lady's head, and, boy, her job was to close that sale and try to work out the financial payments, and luckily we had Presto Charge. That was back before the days of Master Charge and Bank Americard, and we had Presto Charge from Preston State Bank. Boy, we opened up more accounts for them in '63 and '64 on big charges, you know, $300 charges, and we financed those things at banks and every place else. And it was a tough business. Like being in the car business only worse, and the biggest problem I had is that of continously firing these damn little twitty-toes hairdressers, you know, because they would come in and try to convince Mrs. . . you know, they're so arrogant, here we'd have this wig sold for $350, you know, and our cost is $67,50. And it's styled, and this girl's there and it's ready to be picked up. She puts it on and says, "No, that's not what I wanted. I wanted a swirl of hair around this way." And the guy would say, "Oh, but that looks beautiful on you. You look so gorgeous Mrs. Swasky," or whatever her name was. And she would say, "Well, that's not what I want." "Oh, no. I can't do that. That's a masterpiece," and you know. She'd yank the damn thing off her head, throw it over in the corner, and walk out screaming as she left the door, "I ain't paying for it." Or, she'd be convinced enough, sold, that it did look good that she'd wear it home, and her husband would tell her it looked awful and I'd get it back the next day in a paper sack. Of course, we took those used wigs, restyled them, put them on mannequins, and naturally some little girl would walk by and see a style that appealed to her and she'd say, "I want that one." And, "Boy, have we got a deal for you because that's already been styled, and there's no styling fees involved. You can buy it at a discount." But that wig business, like . . . that's the only thing that ever occurred that almost drove me crazy. But I think our first full month in sales which would be in the month of October, I think we sold something $5,000 in wigs, That'd be October of '63 and I think our cost of goods sold was something like $750 or $800. Then, of course, our related expenses of styling, etc., would probably have been another $1,000. But suffice to say there was a $3,000 profit in there. Boy, and that covered all the expenses. We kept that little thing alive for several years. We closed the salon down a little after a year and a half or so of business as the cosmetic business began to catch hold, and we had hooked a lot of our sales people by becoming Mary Kay beauty consultants because they would go out and sell fashion wigs, too. They'd have a . . . swatches and all pictures and stuff, and they wouldn't have to do anything but convince someone at a show that they ought to try on a wig, and on a referral basis we paid them a thirty per cent commission. So . . . and maybe if they were referring two or three people a month who did buy wigs, they were making another hundred and fifty bucks, two hundred bucks extra on the side, just referring customers to us, which also perpetuated the wig business. We didn't have to just rely on walk in traffic. We lost a lot of sales people when we discontinued the wigs, and it was a very difficult chore for me to convince Mary Kay that in the long term aspects of the business that that was okay for the Dallas area, but that wasn't worth a damn in Minneapolis, Minnesota, unless we were prepared to go open salons there and service the people and so on. I'd be quick to point out too, that over that period of time the competition became very stringent. All of the department stores started carrying wigs. You began to get the Korean hair wigs, imports for thirty-five bucks instead of three hundred and fifty. The handwriting on the wall that this particular type of business was going to be a problem area in future years. Of course, it was extremely evident to me and to Mary Kay that it did not have the potential to become nearly as viable a business as did the cosmetic industry. So with all those things working, we were able to get out of the wig business. We did lose some people. Lost some sales persons who said, "Well, if you're going to discontinue wigs, I'm not going to go out and sell these cosmetics because I didn't come into this just to hold beauty shows, you know. I've been making a lot of money on referrals, and if that money is no longer going to be available to me, you can just take your cosmetics and shove them." So that was the end of that, and we lost some really good people. But, nevertheless, we made the decision and it was the right one, and we canned that business. So that cover, I think, the first months of business and their problems (chuckle). As I can best remember the formative stages of developing the marketing system, the patience that we had to . . . even though we did need the money, that we had to implement on our program to find quality not quantity, the initial stages of development of the basic Mary Kay beauty show concept of the commission program, our firm's marketing strategy, and so on. Now, I'll be . . . you have on your list there behind . . . those are those three items . . . that there're the first three. You have on your list development of a dual management system. Now, you must have read something that I said sometime or, you must have seen a report somewhere, because this is . . . this concept that did not develop at the initial stages of the business.

Caruth: Let me ask one question before we get into that. How do you go about determining the price for a new product? Is there another one of these what-if type tyings where you reason through it?

Rogers: Well, yes. You do reason through it, and you approach it. . . you actually back into it, as one approach. You take your cost of sales, you take your . . . what you need for S.G.& A., you take your selling commission and your variable expenses that are known factors of sales. In other words, it is very easy to take a marketing plan once it is designed. You know what per cents have to be paid out, and you strip them right off the top of net sales received. You see what's left, and you study your S.G. & A. and see if it will work, and then somewhere in there somebody has to be responsible for determining profit potential. In other words, you've got all these known factors which we just discussed, which I just listed from cost of sales, S.G.&A., selling expenses, fixed and variable expenses, then you have to decide; are you five per cent net after tax entity, or ten per cent after tax entity, or fifteen per cent net after tax entity? Do you need to make thirty per cent net before taxes, twenty or ten? What's your target assignment? I've always felt that if it were possible and if you had your druthers, that it should be as high as you can get it because then you could always spend down to your predetermined budget. In other words, if I could budget where a company made fifteen per cent . . . let's use pre-tax figures for the moment. If I could budget where a company had the capability to make thirty per cent pre-tax, which would yeild sixteen per cent net after taxes on a forty-eight per cent rate, if I wanted to, I'd have some room for discretionary spending in promotional, advertising, etc. Where if I said my bottom minimum is thirteen per cent net after, I can spend four per cent points of net profit before on promotional endeavors and spend down to a predetermined net after tax figure. But if I had the predetermined net after tax figure at thirteen, and I found myself falling short because my budgeting was incorrect or sales were not as I had predicted, forty per cent increases and there were only twenty-five, or overhead ran higher or cost of sales went up or S.G.& A. ended up costing more because of bad controls, which is easy--it can happen easy. You can't ever get back to thirteen. You'd fall to ten. But if you were budgeted for sixteen and you make mistakes, you just discontinue for a particular quarter, let's say, as an accounting period, you just discontinue your discretionary spending, and you've got four percentage points to work with. You still make your thirteen per cent net after taxes by discontinuing your discretionary spending; then you solve your problem and resume your discretionary spending. It gives you control over the economics of your business. You back into it that way. You also look out and see what the market will bear. What are other products selling for, and where do we fit in the scheme of things? You know, you can buy Ponds for .79 used to be; $1.49 now, and it's like Crisco. It's not made to liquify at body temperature which is 98.6 because if it was it would melt in the warehouse, see. So, it's made to liquify at 110 degrees. You put it on, and you literally have to rub it into the skin because it doesn't liquify, and nor does it contain penetrating oils that penetrate the pores of the skin and actually loosen impurities. So you look at what you make and where it fits; and yet you can go and buy some products at Nieman's that are, you know, a cleansing cream is $14.00 for a four-ounce jar. And what are these people selling? Well, they're selling prestige. Who are they selling to? They're selling to the upper uppers in terms of income bracket, you know, Miss Lotsarocks. And Miss Lotsarocks is not going to go to a Mary Kay beauty Show. Now there have been a few that have gone, and they are now our fine customers (chuckle), but those are level-headed Miss Lotsarocks. They don't need to be able to say, "Oh, have you tried that devine new cream at Nieman's for $27.50?" to try and impress their friends. They don't need to say, "Have you tried that devine new cream called Ponds?" Well, you'd never hear them say that. And you have to determine who you are selling your products to and when you want to consider prices. I would divide--as you would do in economics at North Texas State University. . . I would divide the population into nine categories: Lower-lower, middle-lower, upper-lower, lower-middle, middle-middle, upper-middle, lower-upper, middle-upper, and upper-upper. That's nine categories. Avon's the big daddy of the world. They do over a billion a year in sales. Well, who do they sell to? They sell to lower-lower, middle-lower, upper-lower, lower-middle, and then that's where they get off. Well, who are the $27.50 a jar people selling to? Middle-upper, and upper-upper. Well, who are we going to be selling to? What income environment for the caliber of person we're going to try to hire. Remember, if we hire a nine caliber person on a scale of ten as a sales person, her husband may be the vice-president of a bank or something. She's not going to go into the slums of West Dallas to sell our product if they're aimed at the lower-lowers. She won't sell in that environment. So who are you selling to? Are you selling to the lower-middles, middle-middles, upper-middles, and lower-uppers? And then above that she's at Nieman's, and below that she's buying Avon. And that's our market for the concept of selling and the type of person we have out selling those products and the kinds of homes they are going to reach and get into. So once you determine that, then you look at the whole industry and where do our products fall in the scheme of things in terms of Price. So, you look at what the market will bear. You look at where you sit in terms of the caliber of person you are trying to sell. And what does the average woman pay for cleansing cream, you know? She doesn't pay twenty-some dollars at Nieman's, and she doesn't pay seventy-nine cents for Ponds because she can afford better. She buys a good quality product. Well, what quality products are they, and what's their price range? You determine it from different every way you can, and then hope you're right. If you're right. If you're wrong, you make changes. We backed into it more than anything else . . . in the early years, to be quite honest. But do you have any other questions before we go to this development of dual management system?

Caruth: No. . . no, I was just trying to nail something down on price because I had the suspicion that it was probably one of these things that there's quite a bit of groping for. Pricing is not really that precise, particularly in the formative years, is it?

Rogers: Not from the outset.

Caruth: Then you get more experience and you can begin to define your prices, perhaps a little more sharply.

Rogers: Yes. Well, you begin to have intercourse with your customer, too. You begin to exchange viewpoints back and forth. The customer says . . . you begin to hear, for example, "Boy, that Mary Kay is cheap, cheap, cheap, and is it a good product." Or you begin to hear,"That Mary Kay is kind of expensive, but it really is a good product," and you begin to feel your way into things. You either raise your prices, or figure out how to lower your costs if you're wrong. It's a very . . . and the industry has always been a very fluctuating market on prices, too. There's been a lot of change over the years. We haven't significantly changed our prices over the years. We're certainly not selling our prices for two times what they were selling for in 1963, but we could justify it by inflation if we wanted to.

Caruth: Let's move on into the dual management system and see how that developed.

Rogers: Okay. Well, it's a . . . in other words, I've already explained to you that the marketing approach to selling in terms of developing . . . to creating an atmosphere conducive to motivation wherein the top salespersons in their respective areas would seek to achieve success for themselves by becoming a Mary Kay sales director. Now we're going to leave the term sales manager now, because it's not the one we use. We use sales director, and our listeners, whoever they might be by now have . . . understand what we're talking about. We created the position of Mary Kay sales director with the requisites through which a consultant had to achieve in order to achieve that position, and be paid commensurate with her abilities by virtue of Mary Kay's attitude toward the needs of what is a good (tapping on disk) Mary Kay sales director. What must she be able to prove to us that she's capable of doing? Okay? I would say that neither she nor I, at that time, really understood all the ramifications of what we were doing. We knew that Mary Kay could not be the trainer and run back and forth to Tyler to train the new consultants there, that we had to have somebody there that was capable. We knew that you couldn't run to Houston and do it, and as we began to grow into Louisiana, Arkansas, Oklahoma, etc. we realized that we needed people there. Now most direct selling companies, which are run from a home office, from the corporate level, are situations where you've got a bunch of really high-powered motivators; i.e., you start with your vice president in charge of sales and you come right on down through your promotional department, sales promotion, etc. These people travel around and give hip-hip-hooray speeches, and they motivate. In some cases, they educate. But the fact of the matter is you cannot motivate a little consultant in Monroe, Louisiana, who has just spent her first week with Mary Kay, and it was an absolute disaster because she didn't know what she was doing. She needs to learn the foundation of the business. Now, no vice president of sales is going to go into that area and take her out and train her; take her by the hand and train her. Any guy that comes in with a hip-hip-hooray motivational speech is going to frustrate her because he is going to motivate her to do things that she hasn't learned to do yet. So you're back to the basics of the business as the foundation on which those people then can be motivated. Once you take a consultant and you train him, and by the way, when you take a woman to train her, you need to know a few things about her. You need to know if her husband is for her or against her. You need to know if she is having problems with her children. You need to know if she is an alcoholic. You need to know if there's some hangup that she's got that's preventing her from learning or becoming successful, if you're going to motivate her. Motivation is personal. Motivation is a one to one relationship between people. I can take someone knowing all that information, and then I can direct an approach to motivate that person. But not knowing anything about it I'm just stabbing in the dark when it comes to motivation. So, we realized that we needed many Mary Kays which, back in those days believe me, if you became a sales director, you were the Mary Kay (chuckle) of whatever city you were in, you know. You were the one who took her place in training, in sales meetings, in new consultant training classes, and reviewing applications, and assigning them on their training programs, and administering their . . . to their needs, you know, and teaching them the business, so to speak. You did the same function that Mary Kay did initially in Dallas. You literally took her place in Houston, or wherever. And as this began to develop, we began to get some really super Mary Kay sales directors. There's a direct correlation, and you've got all that data available in our annual reports and so on. So, you finally reach a point where you begin to ask yourself some fairly piercing questions. Is it consultants seeking to become directors that leads them to get out and recruit like mad to build their organizations that is causing the company to grow? Or is it consultants coming into the company, thereby causing their recruiters to become sales directors. That's yeilding the management you need to manage the new people in the field? Now you can have . . . if somebody came into my office tomorrow and said, "Richard, I've got an idea, and if you'll do this it's a promotional gimmick, but it'll work. And if you do this in the month of December, 1974, it's so good that everyone of your consultants in this company will go out and recruit one new recruit in that month, it's such a good idea. And you will double the size of your sales force in one month as a promotional gimmick." I'd throw it right in the trash because what would occur is we'd have twice the people with half the management capable of leading them to success. As a result, we would dilute the quality of our sales organization virtually in half in thirty days and it'd be like a big olê' dog about to fall over. We'd have a lot of warm bodies out there that had no earthly idea what they were doing. It would be the most destructive thing our company ever did. That's what I call the goose that laid the golden egg approach to direct selling. That's what most other direct selling companies have done for years, is sit on their little ivory towers and come up with the goose that laid the golden egg approach in new people, be it run ads in the magazines, in the newspapers, and campaigns for people, and rallys, and all this crud to try to really bring the warm bodies in. I also call it the suede shoe approach to direct selling. It's an approach that is oriented around getting more warm bodies, bunches and bunches of people, and that'll lead to increased sales, and that's not true. The truth is, you build sound, viable organizations via our sales director program in other cities. If you're successful in doing that, then you have met the needs of your people in the field. As long as there is a direct correlation between management in the field and number of new people coming into the business being taught and trained properly, your foundation remains solid in the field. Then the corporate entity as a separate entity becomes an entity separate from the sales organization. The sales organization becomes self-sufficient in its cumulation of new people and new management to train those people through your marketing program. And your corporate entity is moreover like the Congress of the United States. Its job is to act in the best interest of all the people in the sales organization, which is a separate entity, and I actually view it that way. I view it as two separate entities: Mary Kay Cosmetics, the corporate entity, and Mary Kay Cosmetics, the sales organization entity. And the sales directors, they're the liason between the corporation and training the consultants and making them successful. They're the ones that . . . we train the trainers. That's one of the corporate responsibilities, to continue to update their thinking and teach them new ways to be more and more successful. But the corporate responsibility goes further than that. It's a policy making body, it's a supplier of merchandise. It's a responsible for producing an atmosphere conducive to motivation in the sales entity. And that then encompasses all of your promotional activities, your seminars, your workshops, your jamborees, your management training programs, etc. But it's not the corporate's responsibility to go out and train the people in the field because if it is, geographically you can't do it, and from the standpoint of how many people it would require (chuckle), you can't afford it. We now have twenty-eight thousand something sales people and five hundred and fifty qualified sales directors, not people that clunk down ten grand for a franchise and don't know a damn thing about the business, people that earn their positions by proving their leadership capabilities in their respective areas, and that's the strongest foundation a company could ever have. That is a dual management concept.

Caruth: What you've done, then, is just reverse the normal procedure, right? You create a system whereby you produce the managers first.

Rogers: That's what it boils down to. I would be quick to tell you this, that in a period where we have a large number of consultants aspiring to become sales directors, and when we have a large number of sales directors entering qualifications to become a Mary Kay sales director in Sioux City, Iowa, or wherever, we have a large amount of new recruits in that area because those people are motivated seeking success for themselves to building their own organizations, and at the same time proving their ability to become a Mary Kay sales director, establishing a sales organization, and being paid commensurate with their ability. Our control on those people is a motivating, a guidance, a training, an educational sort of thing but we're not responsible for training the consultant at the bottom level, nor for continuing to see to her success, you know. She may start out and be real good and then flounder because she's . . . maybe she's lacking in the area of booking shows, booking techniques. We can't fly somebody from the home office to teach her booking. But, boy, when she comes to sales meetings, or when she calls her sales director in her area and says, "Boy, I'm having some trouble," the sales director has the ability to say, "Well, you know we've got some people in our organization like Sue Johnson who's a super booker. Why don't you go on a few training shows with Sue next week. Why don't you just take a couple of hours each day for three days, and you go along with Sue and you watch her booking technique at those shows. And why don't you study your manual, you know, because your manual has got those answers in it, too. Or, why don't you come in to the new consultant's training class and let's go over the fundamentals of booking again." Now the sales director in that area is going to get right down to the basis of that problem and begin to work with that girl until that girl becomes a master booker and solves that problem. Now you . . . you're not . . . at the corporate level you're not even aware that that problem exists with that girl. All you know is that her sales aren't in. You don't know if it's because she's disinterested or because she needs some held or she needs training. There is no other way to run a direct selling organization except through the dual marketing concept.

Caruth: And this kind of evolved as you went along, you say?

Rogers: Well, we sort of realized that we had a tiger by the tail as we went along. We began to shift our emphasis from promotional and motivational activities that encouraged the consultant to recruit. We shifted them into a program of encouraging consultants who were capable to become sales directors. And we began to work on not just recruiting but getting that person to achieve the position of field management which is the position of sales director. What it is evolved into is a situation where as we grew the sales organization generated its own management. Not only has it continuously been well-managed, but it is becoming increasingly more well-managed. In other words, the quality of the sales directors has sifted over the years to the point now, if you're a sales director you're just God in the eyes of those people. Plus, we have a program where once a consultant becomes a sales director, she has to maintain certain volumes or she loses the position and has to qualify all over again. I don't know if you talked about that or not.

Caruth: We have not gotten into that.

Rogers: You hadn't? Well, the way it stands, if a sales director in her total unit volume . . . you know, we do ship direct to each consultant in the company on a cash basis. We have no accounts receivable and so on. So we don't sell merchandise to the sales manager who in turn sells it to the people. There aren't different levels of distribution because then you get inventory loading and we don't want any of that. You know, you create a pipeline, that's what you do. So when a sales director is having a tough time meeting her unit quota in her unit, she just buys a bunch of merchandise. If she's successful, she moves it. If she's unsuccessful, she buys some more until she's got a boat load of it, and then she wants to sell it to salvage yards and the whole sales organization gets ruined, you see. We sell direct to each individual person and then at the end of each month we send the director a computer printout of all the people in her unit and what their purchases were directly from the company for the month, and a total at the bottom, and then we cut her a check. We pay a sales director; if her total unit volume is zero to a thousand to two thousand per month, she gets no check at all. It's too low. A thousand to two thousand, she gets nine per cent of sales for one month. Two consecutive months under two thousand, she's terminated as a sales director, goes back to the position of consultant, and must qualify all over again. That's the three months qualification all over again. Two thousand to four thousand we pay her ten per cent. Four thousand to six thousand we pay her eleven per cent, and six thousand and over we pay her twelve per cent of total wholesale volume, which would be, well, six thousand would be twelve thousand in retail goods sold, basically, with a fifty per cent discount, which is what we give our people. So, though we have had a lot of sales directors that washed out, you see, so we culled out the bad ones over the years, and we've now reached the point where the preponderance of our sales directors are really good, viable units. And as a result, they're also good (chuckle) managers. They've learned a lot in those years about running a Mary Kay sales unit, and they've learned from each other. We have meetings where we get them together and they teach one another. One of them says, "Boy, I've been having a real problem with such and such in Atlanta, Georgia."

Another one says, "Well, you know what we did in Pheonix, Arizona? We had that same problem." And as they learned from one another we've documented these things. We've not got a director's manual that's their Bible. Boy, it answers everything. It's ten or eleven years of experience on how to build a strong, viable Mary Kay sales unit, and it's our sales director's Bible.

Caruth: How often does--at this point in time--a person who is a sales director find herself busted back to being a consultant? Is that something that happens with less and less frequency now than it did, say, a few years ago?

Rogers: No, it doesn't happen with less and less frequency because we've got more directors in qualification. If you want a basic rule of thumb, we lose one-half of the sales directors that we gain in a given accounting period. For example, now I want to explain that because that's a very confusing statistical item I've just given you. Let's say we begin a period with 400. During the period, let's use 1974, we begin the year with 400. Our actual beginning was like 427, I think. During the period we add 300 new sales directors and we terminate 150; half of what we added. So we end the end of the year at 550. But I'd be quick to point out, we terminated 150 out of 700, not out of 300. We started with 400. We added 300. We terminated 150. We didn't terminate of the 300, but 150 of the total 700.

Caruth: So, some new ones and some old ones then are going out?

Rogers: Right.

Caruth: What happens to the consultants in a unit if the sales director is busted back? Do they get a new director or what?

Rogers: No, they go right back to the unit from which they came in the first place. In other words, when a girl became a sales director, they formed . . . they branched off and formed their own unit. At that point, the parent unit became a senior director, and draws a four per cent commission override on the offspring unit. That override discontinues, but all the people that are still active go back to the parent unit. She gets it all back.

Caruth: Except the four per cent?

Rogers: No, she gets it back because she gets their production back in her net unit, you know, which may run twelve per cent, if she's in that bracket.

Caruth: Do you find this sort of thing motivational; the knowledge that people have to continue to perform?

Rogers: Yes. You show me an environment where the marketing program is designed where the people don't have to continue to perform and I'll show you where motivation goes right out the window.

Caruth: So there's never any let up then?

Rogers: No, not even after they reach the position of area director, which is a rather . . . it's a rather . . . it took four years to work out the commission schedule for area director where it solved all the motivational problems that might be involved, hindering a person from taking that position. And . . . what I'd have to do is get it all out, and we'd have to really study it. Then I would have to show you all the ramifications involved; not only in our thinking processes, but their's. It's a complicated commission schedule but, yet, it's very simple. But it's . . . but when you start studying how it motivates people, it becomes very nifty (laugh) and very complicated. Very comprehensive would be a better word. How about a coffee refill real quick?

Caruth: Okay.

Rogers: Now if you'd . . . we can go on through the evolution of the company as it matured with the basic foundations that we have down now in terms of concepts, marketing, dual management concept, and so on. I've left out some of the basic things like just sheer supply of merchandise, money, finance, etc. We can go into these and bring ourselves to the mature corporate entity now. Then if you like we can go back and, gosh, we can just pick spots that we can go into detail about.

Caruth: Let's do that then.

Rogers: Alright. Just so we . . . we follow this list. Any legal problems encountered? Yes, we live in legal problems. We're involved in an industry that's very popular to legislate. We're very active with the Direct Selling Association, which is headquartered in Washington, D.C. They have about a hundred member companies, and that includes everybody like Tupperware, Avon, Stanley Home Products, Kirby, Electrolux, Mary Kay, Vanda Beauty Counselors, Vivian Woodward, and on and on and on; not just cosmetics but all sorts of direct selling companies. Really, that organization, as it has taken shape since the late sixties, has become very important as it has done quite a lot in the area of self-regulation, pressure of the major group companies that are legitimate operating to put the screws to the other ones. We were instrumental in getting legislation through like the cooling off legislation that gives the customer . . . you know, I mean here we provide 100 per cent quarantee. If somebody has . . if for any reason has one of our products, it will either be cheerfully exchanged or money refunded. I mean, that's the way we operate and that's the way we want everybody else in the industry to operate because the industry reached the point where it was about to get a black eye, you know. The magazine salesmen and the book guys, and God, the potware people . . . you know, they would go in and sell some poor little housewife $450 worth of pots, and her husband would come home and find her bound to a contract to pay out $800 including the finance charges, (chuckle) for a new set of pots and pans that really aren't worth the money. So we helped sponsor cooling-off legislation. You're aware, I'm sure, that in the business world our country has been involved the last five years in a tremendous wave of consumerism. We've seen the wave on consumerism by Ralph Nader, etc., at all levels, not just in direct selling. But nevertheless we've had a tremendous amount of legal involvement. I would say that one of our two in-house corporate attorneys, Monty Barber, probably spends seventy per cent of his time in this area, and twenty per cent in SEC problems, and ten per cent in others. So, we've really had a lot of involvement in the legal area. Some have been problems. Some have been blessings. We did have one lawsuit that we perpetuated for a couple of years back in 1966 where we had a couple of our sales directors in cahoots with the woman from which Mary Kay bought the initial formula, and start their own company in competition with us. They committed what we determined to be a conspiracy to overthrow the whole company. We really don't mind competition that much. We don't worry about our competition that much. We worry more about what we're doing than about what other people are doing in a competitive way. We're sort of geared to objectives around here. Everybody is. And we go for those objectives, and the hell with whether somebody else gets it off the ground and does a million in sales the first year, you know, which they never did. They're struggling along now, and they probably will do in a year what we do in a good week. That's been since '66, and that company's name was

Beauty Control, Inc., and they're still in existence. They're now . . . they've been bought out by a company called Tri-Chem and they're a wholly owned subsidiary of Tri-Chem, and they're not really . . . they're doing okay, but nothing earth-shattering.

Caruth: What are some of these kinds of legal or consumer problems that your attorney spends his time on?

Rogers: Oh, it's multitude of things. You know. . . just to give you a local example, about two years ago we had somebody propose to the city council for example that they institute a licensing program where if you were an individual in business for yourself selling a product or service, all you had to do was go down and pay $3 and get a city license to sell within the city of Dallas. This was proposed to keep the people that were coming in from out of town, the guys that would come in and sell their deals and get out of town and never deliver the product or the service, and take the money and run type; fly-by-nighters. Well, first of all, we had to educate the fine city council of the city of Dallas that dishonest people don't go down and get themselves licensed in the first damn place (laugh), and that they don't have the budget to educate the consumer to the extent that everytime somebody comes to the door to sell something or calls on the phone to sell something that they've got to show that damn license. Then they had the audacity to say that in addition to the $3 licensing requirement the only other little deal that they were going to provide was that the girl had to come down and be photographed and fingerprinted. Now can you imagine that? Can you imagine that, you know? And we live in a free country, don't we?

Caruth: Yes, I would think so.

Rogers: Yes, we like to think so. We . . . we voluntarily pay taxes, we do, so . . . there's our freedom. We have to pay the price for our freedom. But, anyway, things like this crop up all the time; ordinances, and, of course, we just defeat them one after another. I mean there's no way anybody can shove one of those things through. If they get it through without us knowing about it, we'll get it repelled, you know. It's just . . . we . . . it's like the little forest fires that we fight all the time. Fortunately in the wave on consumerism, we've cleaned up our own industry now with cooling-off legislation and other things, where the person has three days to rescind the purchase, and so on, and return the goods, and so on and so forth. And we've built the Direct Selling Association into something that's now recognized by the State Attorney General's Office, and a few others, you know, and all the local municipalities as being a legit organization representing literally millions of sales persons doing billions a year in sales as a big organization. Its financing is pretty big, too. Its budget runs over half a million a year, the DSA, promoted by contributions from member companies. It has a large staff of attorneys too, by the way.

Caruth: Having touched on this area of government regulation, let me ask you for some personal viewpoints on what you think about government regulations.

Rogers: Well, I'm not necessarily opposed to programs of consumer protection, providing they don't come in such a manner as to be so rigorous that the government feels that the approach is that the consumer's ignorant and has to be protected and can't make a decision on their own. That's government intervention instead of regulation, and I see those as two separate and distinct areas. I didn't mind, for example, the cooling-off legislation as long as it was well thought out. As a matter of fact, we helped to write it. As a matter of fact, we wrote it.

Caruth: When you say we . . .

Rogers: Our staff lawyers with the Direct Selling Association and representation from all member companies together guided that legislation in the appropriate channels so that it was not unfair. I'm a great believer that companies should be legitimate enough to provide money-back guarantees. I don't think that the consumers should be <u>stuck</u> with anything. All companies don't. You can't give a money-back guarantee, for example, on certain products that are not used up; i.e., automobile. General Motors can't say, you know, "You drive this car for six months and if for any reason you don't like it, you bring it back and we'll give you either a new car absolutely free or refund all your money." Well, you can't bring back a four-year old set of encyclopedias either. You know after your kids are already off to college and you have no need for them anymore. But where it's reasonable, I'm a promoter of consumerism. Other areas of government regulation like the Kennedy Eagleton bill, here's . . . here's a piece of legislation in the area of cosmetic packaging and in March of 1975, which, by the way, we already comply with those rules because all of our products are ingredient labeled now, we saw the handwriting, and we helped this legislation along, to label in descending order the chemical contents of our products. I don't see anything wrong with that in the area of consumer protection. A particular woman might have a tremendous allergenic reaction to lanolin, and here she's out trying to select a product. The sales clerk in the store doesn't know, does it contain lanolin, or does it not contain lanolin. There's no label on the back like in the food industry, you can look on the back, you know. I don't mind that type of consumer legislation either. Things that are fair but, I put them in two distinct categories. One of intervention, government intervention is one category, and government regulation is another, and they're two separate areas, and you can take almost every issue that comes forward, and decide where it falls.

Caruth: You would prefer then self regulation either through an association . . .

Rogers: Well, we've come a long way with that. We've accomplished a . . . we have prevented a lot of legislation by self regulation, and we've brought a lot of pressures to bear on companies that have not self regulated themselves; i.e., the multi-level selling scheme. God, we fought that damn thing from 19 . . . actively from 1967 to 1973. I'd . . . I would hate to try to isolate our legal expense of fighting that thing, even to the extent that our association was being sued at one point for fifty million dollars. They got smart and went . . . all the multi-level folks went and formed their own association. They sued separately and independently Avon, Tupperware, Dart Industries, and two or three other companies; the biggies. We really fought those folks because they were selling get rich quick deals and they were ruining the direct selling industry in so doing. We don't need to go into that whole history, but it really reached its climax with this guy Turner in Florida with this Koscot Cosmetics and the Dare to be Great program and all that crap. They were out soliciting investments and it was you buy for ten thousand and sell it to somebody else. You know, you buy at a sixty per cent discount and sell to somebody else at fifty who sells to somebody else for such and such, and the guy on top, the first guy in makes a bunch of money, and it's a chain letter deal, and nobody could care less about whoever sells it to the consumer and ends up in closets and under beds and in garages and things. Then when it gets really sour in a city and they've sold twenty-nine nonexclusive franchises for ten thousand appiece and some of them by virtue of the sub-franchises they've sold have reordered five and ten times each and they've drained the city of seven million dollars, they move on to a new city and that's the way the damn things work. Boy, and we fought them like crazy because it really created a bad atmosphere for our . . . for legitimate organizations because the wife would come home all excited about selling Mary Kay cosmetics and all the husband would say was, "Uh-uh. I don't want you getting mixed up in any of those cosmetic deals. I've heard all about them. I don't care if you do need just sixty dollars for your beginning kit or whatever, and they're going to train you for two weeks. I've heard all about that." "Well, honey, this company's different. It's a publicly held company, and I want to study it and so on . . . " "No, I don't have time to. I've heard all about it. Stay away from those things. My mind's made up. Don't confuse me with facts." And that's a bad atmosphere for recruiting. So we fought many a legal battle.

Right now what happened to the wave of consumerism is environmentalists took over. You know, it's funny how these trends come and go. The consumerism was taken over by the environmentalists in terms of the focal point of the American public and now that's gone down the drain. Now we're involved with recession and inflation even to the extent that the rules and regulations on certain polluting industries are now not only being extended, but actually being ignored. We're letting violaters go unprosecuted because of the economic problems that it might cause if we enforced (chuckle) some of the regulations that we did back in the era of the environmentalists. If we really enforced those things now we'd have some economic problems, see. So we've changed waves here three times in six years like every two years is something new. I don't know what's on schedule for 1976, but it's fun to watch these things come and go, and corporations have to respond to these movements. The corporations have to respond to these movements. The corporation that sits back and says, "Oh, hell, I'm immune from that. That doesn't apply to me." He's crazy (laugh). Somewhere it's going to apply to him. Somewheres down the line the brush that paints the picture is going to be painted broadly enough where he gets sucked into the fold.

Caruth: Have you ever had any problems with FDA?

Rogers: No. Nothing except that they come visit us about once every six months and live with us for five or six days. But then again, we've always made it a practice to stay head and shoulders above their requirements; like our manufacturing facility. We run a facility over here that's more of an environment of a pharmaceutical facility than a cosmetic facility. And we . . . the lab testing that we do and the quality control programs that we have are so far above standard. . . a batch of cleansing cream, for example. We fill every jar with the batch number on the bottom--29876 or whatever it might be--and that batch number can be traced directly back to a complete lab report on that batch number which is held on file for . . . I can't remember if it's three or four years--something like that. Three years I think. It's held on file and it shows all the tests that were run and all the specific results of each test. Then we take actual product from that batch number and we seal it into a container, airtight, and put it in storage so that we cannot only show them the lab report, we can actually give them a sample of the product that came out of that batch.

Caruth: How long have you been doing this?

Rogers: Oh, since about '69, I think.

Caruth: What was the original reason for implementing that particular practice?

Rogers: Self protection. Some little old lady buys some night cream. She gives it to her grandmother. Her grand-mother takes it home and sets it on a shelf and doesn't use it for two years. The shelf life starts to deteriorate on that product because it's a three-year shelf life product, let's say. Then the little old lady picks it up and finally starts to use it and says, "Hey, that's pretty good stuff." The little old lady takes her fingers and puts them in the jar and gets night cream on her fingers, takes her fingers and puts it on her face, gets bacteria off her skin. People have different levels of skin bacteria. She gets that bacteria on her finger and she puts it right back in that night cream and gets some more. And she infects that product back and forth from her face, you know, or she puts it on sores that are festering on her hand, and she gets these germs from these sores on her hands. She puts her fingers back, gets more product, and puts it on those sores again and infects that product over a period of six months. She puts that product right there in that little closet next to her hot water heater where the temperature is just all wrong, you know, for bacteria to grow. And she infects that product with germs and bacteria and that damn thing begins to grow and pretty soon she forgets about it, quits using it, and a year later comes back and there's this gawd awful green stuff all over the top. And she runs to the FDA with this infected product. We better have our act together. We'd better be able to show where that product came from, batch numbers, lab tests, and actual samples, and we better be able to prove that something happened to that product.

Caruth: Whose idea was it to start doing this?

Rogers: I don't remember. I just remember that in various planning sessions that have taken place throughout the growth of our company, we've sat down and we've covered all the bases, numerous times, and we're very conservative in that regard. We plan to be around for a long time. Then there were some situations I remember back in those days, too. Mennen had a real problem with their Mennen baby lotion. One of the problems they had is that at that point in time they did no quality control at all. That's a very cheap product, and all . . . it only consists of two ingredients, by the way. I don't know just . . .one of them's mineral oil, and I don't know what the other one is, coloring or something. And the way they make it is they have these great big vats and these rail cars come up and they pump these two products into the vat and they're stirring it, and then right out the bottom it's being filled. It's a very cheap product; cheapo, cheapo, cheapo. Okay? One of these rail cars was infected with bacteria at a high level and, of course, it came right from the source. We even ran lab tests. . . we quarantine all raw materials that we receive from whoever. I don't care if it's DuPont or . . . the biggest chemical company in the world. They're quarantined. Lab tests are run to meet certain specifications, even down to tests like viscosity, and so on, the thickness of it, make sure it's not watered down, make sure we're not getting cheated before they're allowed to go into inventory. Then we test the finished goods after they are made into a finished product. We find a lot of bad stuff on occasion coming in. I'm talking about borderline. That way we can kick it back. One thing that helps us there is the supplier knows that we're running lab tests, and then they can't shuff any . . . you know, something that's not right, they can't send it to us. "Boy, don't send it to Mary Kay. They'll send it right back to you." You know, "If the viscosity's wrong, then they'll send it back." That's all part of the . . . quality that you . . . if it doesn't cost that much to go first class. It just takes good strong management consideration, that's all.

Caruth: So then you've really tried to anticipate practically all of the problems that you could have?

Rogers: If you don't, you're going to have so many problems that you begin servicing the needs of those problems rather than . . . you begin reacting to the problem, you see. And then it's like chasing forest fires, and that's legislative, the whole deal, you know.

Business History Collection

Richard Rogers

Interviewer: Dr. Donald L. Caruth

Place of Interview: Dallas, Texas Date: November 25, 1974

Dr. Caruth: This is Dr. Donald Caruth recording for the North Texas State University Business History Collection. Today I'm continuing my interview with Richard Rogers, President of Mary Kay Cosmetics, Inc. The interview is taking place in Dallas, Texas, on November 25, 1974.

Let's start today by looking at the decision to go public, and have you tell me a little bit about how that was made, why, and so forth.

Mr. Rogers: Okay. In latter 1967, our company was showing some pretty good growth. We were beginning at that point to get into some numbers that were a little more significant than before. Well, I was looking for an annual report, but I don't have one right there, but that's okay. We were coming along prior to that with sales increases which were rather substantial. We had gone from like two million four to four million four in 1967, and we're looking into '68 of doing something over six million, which would mean that our sales increase for 1968 would be roughly two million more than it was in 1967. We had a real unusual problem because at that point in time we were not a fully integrated manufacturer and distributor of cosmetics, but rather simply a distributor. We were buying goods from Goodier Company, perfumers and chemists over in Oak Cliff. They had reached a point, or we had reached a point with them, where we were accounting for about ninety per cent of their volume, and we realized that they were going to have to increase their productive capabilities considerably in order to meet our needs for the future. And, of course, the individuals that owned the Goodier Company, which were Elwood Goodier, Jr. and his father Mr. Goodier, Sr., didn't have the resources available to them to meet our expansion needs, nor would they be in a position to take the risk that was involved in building a several million dollar facility just from the standpoint of servicing the needs of one customer. Because if we chose to do so, we could give them some sort of reasonable notice that we were no longer going to do business with them, and there they'd be with this giant manufacturing facility with no volume. So there was a real problem there, and that's one part to the puzzle. The other part to the puzzle is that we realized that as we continued to grow, the prospects of being a publicly held company certainly looked promising for the future because of the way and manner in which we had managed our growth. We had a lot of consultants who we thought would make fantastic directors in many areas of the country in which we were not at that time doing business, and we decided that should we expand into those new geographic areas that we could become a substantial company. And if we were going to be a substantial company and going to be a public company, then, of course, we'd want to be a fully integrated manufacturer and distributor, not just a distributor of cosmetics. So what we chose to do is . . . prior to going public I went over and had conversations with them about merging the operations together, and, of course, in so doing, represented to them that I would make them what I thought would be a fair offer in terms of the exchange of stock of Mary Kay Cosmetics for their manufacturing capabilities. And I also represented to them that in going public we would be able to create a market for our securities so that we could, through a secondary offering or some other vehicle, provide the funds necessary to build a new manufacuring facility should the final merger agreement, satisfactory to them and to us, be consummated. So that's sort of where everything stood in the scheme of things. From that point forward our first interest, and of course as you know back in that point in time new offerings were really hot potatoes. Stocks, especially growth stocks, were selling at an extremely high price, I felt that after going through a successful public offering it would be quite possible for me to come back full circle and work out a deal wherein we could sell some stock through a secondary offering after a market had been established and we had taken advantage of the rising trend in the stock without causing significant dillution to the company. We could raise sufficient funds to build our manufacuring needs for the future and take their operation and their expertise of personnel, chemists, management, and so on and just plug them into the new facility. I'd be quick to mention at this point in time a lot of people said to us, "Well, why don't you, if you're going to acquire them for shares of stock, why don't you acquire somebody who has an existing operation in selling to other customers and do the exchange with them and that way you pick up their business for the same price, so to speak, and at the same time provide expanded manufacturing facilities for you because you're going to have to build a new plant for these folks anyway?" That would have added to the . . . in other words, we would have then been buying someone that was manufacturing goods for others rather than for ourselves, so that would have added sales and earnings, of course, to our own. My only answer to that is that we had a feeling in 1968 that the Goodier Company had made an extremely valuable contribution to the growth of this company in the years of '63, '64, '65, '66, '67, and ongoing in '68 to the extent that, all along we felt towards them that they had really helped us to build Mary Kay Cosmetics as we knew it. They went out on a limb in the early stages manufacturing goods for us and then they stayed up nights and humped over weekends to make sure that we got what we needed. They helped us with product improvements. They helped us in obtaining raw materials, and things such as custom containers for our jars, and helped us with all facets of the manufacturing end of the business, and we felt we had an indebtness to them, that we had built the thing as a team, even though we were two separate entities, and we wanted to share . . . we wanted them to share in the prosperity that we had encountered in building our business. So it was a good all around deal we felt. So, what we planned to do is, we first initially planned to just simply take the company public in order to create a good price for our shares of stock. So we planned a very small offering and the original was for the most part selling shareholders. The original offering was only like a hundred and ninety-eight thousand shares of stock of which thirty thousand shares were being offered by the company and roughly a hundred and sixty-eight thousand shares were being offered by selling shareholders and just enough out there to create a market for the stock. That would give our stock a value on which we could do a share offering deal to acquire their company. So, we went public in 1968 with that kind of offering. We had like a million . . . I've forgotten exactly what it was . . . it was like a million, two hundred thousand shares outstanding, of which two hundred thousand were in the float, and a million was still held by the family.

That's basically the way it worked out. I'd have to refer back to specific documents to get the exact shares. The stock came at $12 a share. It went to $30 the first day, settled down at around $25, traded back and forth in that range. We made a deal for like, as best I can remember here again, I'd say we'd need to refer to specific documents, but it was somewhere in the neighborhood of one hundred and fifty thousand shares of stock in exchange for Goodier, Incorporated. Those shares were split evenly like seventy-five thousand shares appiece--seventy-five thousand to Mr. Goodier, Jr., who signed a five-year employment agreement with us in conjunction with the deal, and the other half went to his father who was completely removed from the operation . . . what we were going to establish. With that exchange, we then turned around with some cash that we had on hand at the time we purchased some land over on Regal Row--eleven acres. The second thing that I did there was to go to Republic National Bank and arrange for two million dollars of interim finance to finance the construction of the manufacturing facility. We began construction. . . we went public in August of '68. We began construction in January of '69 and completed the plant during the year of '69. During the year in which we were completing the plant and going further into the two million dollar interim loan, I simply told . . . I did not have any permanent financing, I told Republic National Bank that I would either pay the loan off at the end of the construction period, or secure permanent financing in order to retire the two million dollar interim finance indebtness, or finance it through the public market. Well, of course, it was a lot cheaper to finance it through the public market when you're running a fifty or sixty times earning multiple; that's a lot cheaper than long term debt financing. As it turned out, what I did in fact was do a three million subordinated convertible debenture deal with Allstate Insurance Company, convertible into common stock. So it was debt, but it was also financing. They had numerous . . . it was a fairly complicated subordinated convertible debenture. But it, one, was subordinated, so that it did not hurt our borrowing capability. It was convertible into common stock at a price, I think . . . at the time we did the deal, the stock was like $35 a share, and we arranged for closing, and we didn't have a specific convertible price nailed down, I mean at the time we were actually negotiating the thing. We ended up with a price of like $32 a share, but in the interim the stock fell to $27 and Allstate went through with it anyway. So it was quite a coup. The agreement, the subordinated convertible debenture agreement, which you could find out the terms of that from certain specific documents if you'd like to research it, also had a provision where it was non-interest bearing the first two years. And it was like 6/12 per cent thereafter up through ten years, and, of course, their convertible price . . . they would have the option to convert, but we could not call the debenture unless the stock exceeded a certain price. It also had a call feature in it, and if it did exceed a certain price, we could call and force converting in lieu of paying the debt off, or we could choose not to call, and simply announce to them that we were going to pay off the debenture, and they had thirty days to either convert or we could pay them in money. Of course, the stock performance from there for the next couple of years during the term of that subordinated convertible debenture was such that we did in fact reach the point where we would much rather pay them the money back than have them convert to stock. We made them the offer, and in thirty days they took the shares (chuckle), so that was the way that debt was retired. And we did build just a fantastic manufacturing facility which added a considerable amount of profitability in terms of the kind of net after tax ratio to sales figures. Our distribution company was running along at about 7 1/2 per cent; 8 per cent net after tax ratio to sales volume. Manufacturing ran about the same, so when we consolidated the two, we, of course, had to was out intercorporate sales and intercorporate profits as they related to inventory increases and decreases and so on, but we were able to become a company that was capable of earning 15 per cent net after taxes on sales. So the decision to go public and the acquisition of Cosmetics Creations, which was the new name that we gave the company after we acquired it, were actually one in the same. It was part of a total conceptual package of going from a distribution company to a fully integrated manufacturer of cosmetics. So those two went hand in hand, really.

Caruth: How did you go about finding Allstate?

Rogers: A shareholder and now a board member of our company, Tom Smith, was managing partner of Witcom Investment Company, which is John Hay Whitney's private investment company in New York, and he was sort of my sounding board at points in time when the company needed something. And so what we did . . . I believe the subordinated convertible deventure deal with Allstate was done in early '70 or '69. We started talking in '69 and did it in '70. I realized that Rausche Pierce who we'd gone public with was just really a brokerage firm and not an institutional . . . they did not handle investment banking business but rather brokerage business. And so I contacted Tom and told Tom about what I thought would be the best way to take the two million dollar interim out, plus provide working capital for future growth, not only in machinery and equipment, but also increased inventories for future growth, which we did not have ourselves leveraged at the time where we could do all of these things from funds generated internally, without some sort of a debt being involved. So I called Tom and Tom arranged an appointment for me to come to New York and talk with various investment bankers about all the alternate ways to raise money. And I went up and talked with several of them and was most impressed, I think, with Goldman Sachs, John Weinberg specifically, about his approach to gaining money. I mean, here we had these high stock prices, but on the other hand, it had also become true that when a company who had just recently acquired high multiple stock prices because they had only been publicly held for a year or two, all of a sudden sprang out with this huge secondary offering, there was always a considerable decline in the price of the stock. It also happened that if we just wanted to raise three million dollars and our stock was trading at thirty-five, we wouldn't have to have an offering but of ninety thousand shares, which was really too small to go to the public with. So there was sort of a problem involved. And it was also too small for a firm of the caliber and stature of Goldman Sachs to handle. They're a pretty large firm and that would be an awfully small deal for them to handle. So I suggested to Goldman Sachs that in lieu of a public offering that we might consider some sort of a convertible debenture offering, and go to just one client, and see if someone would be interested in purchasing it. And, of course, they solicited numerous insurance companies, and so on and so forth to see if they were willing to go this route. And Allstate Insurance Company said, "Yes, we'd like to look at the company." And so they came down and visited with me. The man's name was Ken McCray. They came down and visited with me, and sure enough, we consummated the deal. So it was just the right way to go. It was just a private placement in lieu of a public offering. It was simple, it was clean, and it served our needs at the time.

Caruth: Does Cosmetic Creations do work for any other company?

Rogers; Yes, they do. Well, of course, the plan at the time was for them to do a . . . I'm not going to use the word substantial, but a significant amount of business, private label for other persons. You see, we were building a plant which would have the capability of producing approximately thirty million dollars a year worth of cosmetics at our wholesale distribution cost. You'll have to remember that we had in 1968 and '69 . . . we were only in the six million dollar area in sales. So we had a substantial amount of excess plant capacity, and we hired a man to go out and sell other people. They already had several established clients that they had held for years that they did manufacturing for like . . . well, we make all the Nieman Marcus products, all the NM products; bubble bath, body lotion, and colognes, NM egg cognac shampoo, and (chuckle) lots of little exotic stuff, and we had planned to provide these services for other people. Unfortunately, what we ran into is that others were no . . . they were more interested in contract packaging than in private label cosmetics, and there's a significant difference. Private label cosmetics, for example, if I make a product for Nieman's and let's say my cost of raw materials and component parts is fifty cents, and I want to sell it for fifty per cent gross profit, and sell it to them for seventy-five cents, they could care less because they are going to retail it for three dollars. So their margins from seventy-five cents to three dollars are just fantastic. They don't have to worry about coming after a dime, which cuts my margin. On the other hand, that's private labeling. Secondly, I own the formulas. I created them and I provide them for them on exclusive basis. But I don't give them the formulas and procedures where they can go out and bid it against other people. Contract packaging, on the other hand, is a situation where like, for instance, we interested Dow Chemical in producing . . . in having all their new hand lotion, Touch of Sweden, to be produced here, and we actually did their sample run of some hundred thousand units, or what have you, which was a sampling program that they undertook. And you know, those guys come in and they say, "Okay, the container is 5.6 cents and the cap is 1.8 cents, and the liner in the cap is .02 cents, and the raw materials that are going into the product are as follows, and the component part costs of all the raw materials is X, and the carton is 3.6, and we'll give you ten cents each to fill them." I mean that was their approach. Well, I found myself receiving offers for substantial production which would fill the capacity of our plant with a very deteriorating margin of profit. As a matter of fact, at one point I had an offer that probably could have amounted to ten million dollars in sales, but I'd have to be willing to make about four per cent net after taxes on it. So that would increase sales and dilute earnings as a per cent to sales. The other thing that would transpire, which worried me significantly was that, what if I added ten million dollars in sales in 1971 and lost it in '72. It's very difficult to explain to your shareholders what transpired in those periods that would cause such a tremendous fluctuation in what was already established as a continuous growth pattern. So anyway, that was one part of the problem. The other part of the problem is that if our projections worked out for like thirty-six months at the rate of increases we were having, we could see that 1970 sales, 1971's 1972's, and 1973's volume was going to be sufficient within, say, a thirty-six month period to begin to really fill up that manufacturing facility with our own work rather than trying to front end load the shop with other production, and thereby create a situation where we had a great deal of pressure to even get some more money and expand that facility prior to our actual need. So those things kind of worked together too in that decision-making process. At any rate, it was a very frustrating experience trying to maintain the kind of margins that we were accustomed to and do private lable work for numerous accounts that always wanted to make all the money for themselves, and weren't as liberal as say Nieman's as far as their marketing approach. So it was a toughy. We turned down more business than we brought into the house because of the margin of the profit problem and just chose to expand into the plant ourselves. And then, of course, during the same period of time what we were selling, you have to remember that things began to unfold. Nineteen seventy-one sales were like twelve and a half million; '72 sales were up to seventeen point something million, '73's sales had an increase of thirty-something per cent, which were right on target to achieve with twenty-three million. At that point in time we realized when we get there, you know, the next jump is from twenty-three to thirty, so we better be under construction with an expanded facility for our own needs, much less looking for others. And so during that year of, let's say '70-'71, well, the plant wasn't even complete and really operative until '70. So during that first . . . during the year of 1970 we were looking at '71 sales potential, which looked pretty good, and chose not to go quite so heavily into private label or trying to set up a private label sales operation as a major portion of our business endeavor. So that's sort of the decision to go public and its impact and also the acquisition of Cosmetic Creations.

Caruth: Tell me a little bit about your planning process. It would seem to me that it might be a little bit more difficult for an organization such as Mary Kay Cosmetics to go about projecting sales. Is that true?

Rogers: No, it's quite the opposite. It's almost like an actuary table. For example, we began this year with twenty-one thousand consultants, the year beginning in '74. We have all our previous years' history to go upon as to what the sales per consultant figure is by different geographic areas from all previous years. In other words, we know January is a bad month and February's a little better and March is quite good. And so we have sales by consultant figures for all these different territories that we were operating in. And we still do, of course. We had a number of years of experience, you know. We can tell you, for example, the average sales for consultant figure in the month of January is going to be seventy-three dollars, February is eighty-three, and March is a hundred and fifteen dollars. So really all we have to do is take our beginning number of consultant figures for the period and calculate by geographic areas based on nine, ten years of history what the high-low median objective for sales for consultants is going to be in all those areas. And these people, all these twenty plus thousand people are scattered out in so many different areas that there . . . if something goes wrong in one, it doesn't go wrong in the other. In other words, the base is broad enough where you get a high degree of consistency. If you'll study the sales for consultant figures of this company, you'll see that it's quite consistent. Last year sales for consultants were 1,148 dollars per consultant, and this year it's going to be within six or eight dollars of that same amount. So we've got a high degree of predictability. We can go and break those down by geographic areas and break down the average sales for consultant by geographic area using eleven years of history, and we can tell you what our sales are going to be in the first quarter of next year.

Caruth: And that's all based on the number of consultants at year end?

Rogers: That's right. Then we update the first quarter, carry that figure into the second, and I can tell you what the second quarter sales are going to be. And I can tell you what third quarter sales, fourth quarter sales, and year-end sales are going to be.

Caruth: Actually your plan, if anything, is a little conservative because it's not allowing for that quarterly increase in sales consultants.

Rogers: Yes, we do it on a monthly basis. And here again, we've got statistical tables that tell us if we've got X number of consultants on January 1. I can tell you how many consultants we're going to recruit in the month of January, how many we're going to terminate, and what our new net consultant figure is going to be on February 1. And then you just unfold that for the balance of the year.

Caruth: Okay, so with each month then the figure is changing?

Rogers: That's right. Here's the year.

Caruth: But your quarterly projection is based on the number at the start of the quarter or the end of the other quarter?

Right: Right, but unfolded for a three month period on a monthly basis.

Caruth: Right, okay. So it's kind of a rolling thing then?

Rogers: Yes, there's the whole year, you know. And, of course, then our budgeting procedures that we have here are quite strenuous. We budget by department. Every department head in this company has a monthly budget, and he receives a computer report monthly that tells him whether he's high or low on his budget for the month and anything that varies over five per cent per line item has to be explained by him in a written explanation. Every month he gets a report card on how his department is doing, ratioed to budget, and he has to account for those things. Doesn't take too long, and a guy begins to learn his department pretty well. And then we consolidate all those and measure that against our known factors in the past by department, and then those figures have to balance with our projection, so really we do the projecting. We do the budgeting here and then confirm our budgets by having all the departments do their budgeting individually. And then we consolidate their budgets and see if they're in balance with ours. Then we go back to see why their budgets are wrong or why our estimates are wrong. But we're always in balance.

It would be expected by many that our net income after taxes certainly wouldn't run 40 per cent increase over a previous 40 per cent increase year, Right?

Caruth: Right.

Rogers: In other words, a good ________ say, "Well, they did . . . they had a 40 per cent increase in net income last year, that's going to be difficult to compare with." So if they compare with, say, a 25 per cent increase in net income for 1975, that certainly . . . that averages better than 30 per cent increase in net income last year, then they'd expect a minimum of 25 or 30 per cent this year because we're comparing with a bad year, see. We had a very good year so we don't need to earn. . . we don't need to go from ninety-five cents a share to a dollar thirty and show a 40 per cent increase in net income next year over a 40 per cent increase year. So I can budget all the way down to about 25 to 30 per cent net income increase for '75, which means I've got a lot of discretionary money to spend. And then if I get upset in there somewhere, let's say if our cost of sales raises significantly, i.e., like it did when we had the energy crisis, and so on, and let's say that I'm too close to a recent price increase that I can increase prices to bring my margins back in line, all I have to do is say, "Okay, well, I'll tell you what let's do. All we need is two hundred thousand to be in balance. Instead of spending five hundred and fifty thousand on advertising, we'll spend three fifty. I'm back in line.

Caruth: What you're saying then . . . my interpretation of this, is that a company can be too profitable for its own good.

Rogers: Oh, yes, very definitely, very definitely. You can get yourself in a helluva crack.

Caruth: That seems to kind of fly in the face of economic principles of trying to maximize profits, doesn't it?

Rogers: When you're clipping along as a company, for example . . . let's talk about net income after tax ratio to sales. We don't think we owe our shareholders anything over about fourteen to fourteen and half per cent net after tax ratio to sales to the bottom line. We think that . . . first of all . . . that industry averages down around four, you know (chuckle). In the cosmetic industry the average is probably in the neighborhood of seven or eight, so that's damn near double what the rest of the industry pulls as a net after tax ratio to sales. We certainly wouldn't want to come through with a period, for example, where we didn't have any discretionary spending at all. We really tightened up the reins. We ran everything on a tight ship basis, and pulled out eighteen per cent net after taxes (laugh) ratio to sales. I mean, what do you do for an encore? Then you're on a treadmill. You also have a quarterly problem that's a very definite thing that you have to watch. If you have a particular quarter within a year where your earnings are extremely high, let's say you come in with a 16.5 per cent net after taxes on a 45 per cent sales increase, so you've got a 45 per cent sales and you're comparing with the year before where you only had a fourteen or fourteen and half per cent net after tax ratio to sales. You might well have a 45 per cent net income after taxes for a particular quarter. Well, what are you going to do next year? You know you're going to be lucky next year even if you've got a good strong thirty per cent sales increase. You're going to be lucky to have your earnings per share up ten per cent. See, then everybody's . . . they're terribly disappointed.

Caruth: Then the price of the stock drops.

Rogers: Yes. And the public market is quite volatile, you know, and the people that follow you are very emotional, you know. I would say that a company has an obligation to its shareholders to plan in an orderly fashion its growth in sales and earnings as best as possible and to manage its money and its expenses; to try to portray a consistent performance.

Caruth: But not necessarily then to maximize its profits?

Rogers: That's correct. In other words, let's say I had a sales increase of 45 per cent, and it looked like for the quarter because we had really run a tight ship, that we were going to have a net after tax figure that would cause the net after taxes to be up 65 per cent on a 45 per cent sales increase. The first thing I'd do is quick spend a couple hundred thousand dollars on advertising to support my sales organization, you see, to get so that I only showed a 45 per cent increase in net income and a 45 per cent increase in sales, if I could. Now I'm set to go where next year I don't have such a tough row to hoe in making comparisons. I'd be very careful about earning too much money in one quarter and showing too significant a gain in net income because then the following year you're in trouble on a comparison basis.

Caruth: It's kind of an interesting thing because it means that you're . . . you're . . .

Rogers: You're managing earnings is what you're doing. But you're doing it in a conservative sort of way as opposed to a company who, for example, pulls out all the stops to try to get the earnings up. In other words, maybe there are a few accounting tricks or something that was not what you'd call conservative; a very liberal accounting policy might create a few skeletons in the closet and what have you, but some day down the road you're going to have to eat those. We run a very conservative form of accounting. We spend most of our time getting our earnings down rather than getting them up.

Caruth: So you've got to create this balance between earnings and expectations and stock prices and all of this sort of thing?

Rogers: It's good financial management, that's all it is. I would much rather create a budget that I could follow on a monthly basis by line account so that I know where I am. Of course, remember we're on a cash basis, so we know where we are on a daily basis. I always have to refer back to that (chuckle) because that's part . . . that's what makes it possible to do this, and do it so well. So as I go through the year we've got certain sales and earnings objectives on a monthly basis, and we know what per cent increase that is over the same period prior year on a monthly basis. So that if I see I'm making my thirty per cent sales increase projection but I'm only at nineteen per cent or twenty-one per cent on net income for a particular month, well, then what I have in here is a budget that has certain discretionary items of spending, like a $100,000 worth of magazine advertising that I would like to do in order to support our growing sales organization and to support the ongoing program of making Mary Kay Cosmetics a household word. You don't do that with one year's advertising budget. You do that over a ten year period of exposure to the public. But I have some discretionary spending that I can move around, and I can say, "Well, our first quarter sales . . . half way through the quarter or end of the month of January or whatever, are coming up a little short in our net income category. Let's cut our discretionary spending in February and March until we can see that we are able to resume." Well, I happen to be sitting here with a budget right now that's got some problems in it. The problem being that I'm only showing a small per cent increase in net income in the first quarter and a large one in the second. So what I've got to do is I've got to show restraint in the first quarter on discretionary spending to get my numbers up, and then I'm making too much money in the second quarter of next year.

Caruth: So then you spend more money.

Rogers: I've got to spend more money in the second quarter, so that growth is orderly and balanced. I need to support my people, so it doesn't make any difference to them whether I support them in April or May instead of February or March, you see.

Caruth: This company's been experiencing a rather fantastic growth rate for a pretty good period of time.

Rogers: Our sales and earnings increases for the last five years ran thirty-nine per cent compound annual average growth.

Caruth: How long do you think you can keep that up?

Rogers: We think that as the base gets larger, of course, our sales increases and our net income increases are definitely going to slow. But I'd be quick to point out we talked about that when we were doing twelve million in sales. We said, "Well, when we get to seventeen it's going to slow up.

Caruth: At what point did you begin to initiate the planning process that you have now and the budgetary process? Was that in the first year or so?

Rogers: Oh, it began. . . no, well, of course, we had planning and budgeting, but not on a sophisticated basis back in the early days. How can you have budgeting when you have no track record on which to make certain assumptions, like your increase of beauty consultants on a monthly basis, or our expansion in terms of sales in certain geographic areas, and so on and so forth. It took us a good while to get. . .we didn't really get this thing down to a science until about three years ago. Three years ago we finally had it worked down to pretty much actuary tables, you know. I can go back with the kind of information I've got right now and I can just tell you, you know. You can ask . . . you can just name a month and I'll tell you what the average sales for consultants figure is going to be. And then I can go further and tell you what it's going to be per geographic area. I mean these trends are just . . . they're just very reliable.

Caruth: Is this system largely your idea?

Rogers: No. Gene Stubbs, our Financial Vice President, has had a great deal to do with this. We're working on a computer program now that . . . what I've got here is still done manually. I'll have a computer program by the end of the year that will do it by . . . what it will do is it has like eleven plug-in variables that are available for a particular month: The number of directors in qualification, the number of people in the future director's program, whether or not the company is sponsoring a contest during a particular month, the historic seasonal trend which is a factor that we plug in, the number of consultants at the beginning of a period by geographic area. So there's, you know, like five different entries there. And then the computer tells us how many consultants we're going to recruit during the month and what the sales for consultant figure is going to be for each geographic area and gives us the total picture.

Caruth: Then you can also play some of the 'what if' games. What if the number is higher or the number is lower?

Rogers: Yes, well, we can. What we'll do is we'll program this thing to give us three levels. It'll give us optimistic, realistic, pessimistic. Then we can budget. We always budget on pessimistic by the way. That's another little ingredient. We take the lower of the sales forecast and we budget accordingly because we can always increase our expenditure. That's easy (laugh). If our sales are running high we just increase our expenses.

Caruth: Of course, with your income going up like it has, it's better to be a little bit pessimistic.

Rogers: Yes.

Caruth: Than to be overly optimistic.

Rogers: Yes. But we want to make sure that if our sales increase for some unknown reason, if our sales increase in the first quarter of next year violates all the historical data that we've got about our company . . . and we only come up . . . we should have had a thirty per cent increase in sales, we want to make sure we've got a twenty-one per cent increase in net income and not a thirteen per cent increase in net income. Now if we budget at the thirty per cent rate, my friend, and we only have twenty-one per cent increase in sales, our discretionary spending is not sufficient to bail us out. It won't cut it.

Caruth: Then you're in trouble.

Rogers: Yes. But we don't do that so we're not in trouble. If we have a twenty-one per cent sales increase, we're going to have . . . we may not have a twenty-one per cent increase in net income but it'll be nineteen or twenty, or maybe eighteen, but it sure won't be twelve or thirteen. It won't be far off.

Caruth: Let me switch us on to another subject and ask you about the expansion into Australia and how that came about.

Rogers: I know you're real interested in that because I told you at our last meeting that it was just a disastrous mistake, and that sort of intrigued you. So I'll unfold it for you. Back in 1966, '67, and maybe a little bit into early '68. . . but I don't think so, probably through '67. There was a gentleman who worked for Success Motivation Institute down in Austin, which is Paul Myers' Motivational Company down in Austin. They sell motivational programs and so on, you know. His name was Graham McCougal and he was from Australia and he was over here serving sort of an apprenticeship for a couple of years with sort of a distant idea that when he went back to Australia he might buy one of Paul Myers' distributorships and get Australia going for SMI. And he was here for a couple of years during that period of time we became pretty good friends because he was working with a lot of our sales directors with motivational courses. He was doing some of their sales meetings for them and he was selling directors, sales directors management motivativational courses, and how to motivate their people, and he was also selling some of the people courses like goal planning, and things of that nature, you know. He was heavily involved in that end of the business. Anyway, his visa ran out and he couldn't do anything unless he became a U.S. citizen and he didn't want to. He had five children and he wanted them to grow up in Australia and so on. So he moved back to Melbourne, Australia, and he got back over there. Instead. . . and he took with him, of course, all the things he had learned for two years about Mary Kay Cosmetics. In working with us he had learned our marketing system and he had read that manual cover to cover and he was really involved with consultants and directors and with corporate management. So he was involved on all levels with our company. And he went back to Australia and decided, "The hell with SMI." What he needed to do was form a cosmetic company just like Mary Kay in Australia. And so . . . I never will forget. He called me one night and he was in error about how the time change worked on that first phone call (chuckle) 'cause he woke me up at . . . it must have been midnight or something, and he was thinking it was ten o'clock or what have you. So I don't know. He said, "Richard, this is Graham McDougal. I've gotten back to Australia and gotten settled down here and I've talked to my brothers, Stewart and Paul, and I told them about Mary Kay Cosmetics and direct selling and so on." Of course, SMI was direct selling, too, so he had had some experience in direct sales besides what he had learned from us. "And we've decided what we'd like to do is start Mary Kay Cosmetics for you in Australia." And I said, "Well, you know that's real nice, but number one . . . " You know, we were right in the midst of acquiring Cosmetics Creations and getting everything going here and building our manufacturing plant. We were worried about domestic growth, and our decision was to major in majors. That would be the U.S. and not in minors, which would be Australia or any other foreign country for that matter. So I politely told him, "No," and then realizing that he knew everything there was to know about our company, I gave him a challenge. I told him, I said, "Graham, you know our company started with five thousand dollars paid-in capital, and you learned a lot during the two years while you were here, and what I think you should do if you really want to get into this is to start a cosmetic company there similar to ours, if that's what you really think you want to do. I'll watch and monitor your progress and if you get a viable entity going over there we might be interested in talking to you with regard to some sort of a merger arrangement or something. But that would be contingent upon how good a job you do." And he wanted to know, "Well, who's going to make the products, and how are we going to get this done?" And I said, "Well, do some research, and see if there aren't some private label manufacturers there in Australia who would have the capability to make a skin care program." And I said, "Now I'm not going to be willing to disclose to you formula information and things of that nature, but you know that a good portion of the success of our sales organization is selling a skin care program or teaching women--really teaching versus selling . . . teaching women a good program of personal hygiene." And I said, "If you run into some troubles, we'd be glad to help you." Anyway, as a result of that conversation he went out and contacted a company, which was fairly large . . . I say fairly large--five, six, seven, eight, ten million a year, I don't know, somewhere in the five to ten million a year category. . . privately owned company called Ross's Proprietary Limited, which is a private label house in Melbourne, Australia. They . . . he had some of our products and, of course, they tried to formulate something quite similar, you see. And they made up a cleansing cream, a night cream, a mask, an astringent, and so on and so forth--make up, and then they added some of the accessory items which were, you know, different formulas, different fragrances, and so on and so forth. But nevertheless, he had the product line. A lot of the things aren't too difficult, you know; eyebrow pencil, mascara, and some of that other stuff. They're just basically the same cosmetic product. Too, he came up with a basic skin care program. He had the knowledge of our company. And he started his company called Rachel York Cosmetics. Where they came up with that name I don't know. But it's a good Australian name, good Aussy name; Rachel York Cosmetics. And he began from scratch building a sales organization in exactly the same way that he had learned that we built ours. He did change a few things on a marketing basis. He had a system whereby they had credit because he believed that there's no way that the average Australian woman can cough up the money like they can here, which . . . and he, in justifying this average secretary over there only made sixty dollars a week and . . . it was a real labor oriented work force and so on, and he had to have receivables and what have you. So anyway, he started Rachel York Cosmetics and by . . . this would be like in . . . he was here in like '66, '67, and by '69, two years later, he had it going pretty good. He was up to about seven hundred sales people. He had . . . he was making a profit. He had sales projections that he was going to do like seven hundred thousand in sales that year, in '69, and a million in '70, and a million five in '71, and earn X amount of dollars. He had all his budgets all figured out and everything. And so anyway, it looked like it was going pretty good. So he invited me to come over and see the operation. So I managed to get some time free. Prior to that he had sent me all the numbers and everything so I could see the whole company. And he had some financial needs because they needed new facilities and they needed larger inventories to meet larger sales needs. Everybody there was working on a real skimpy salary and they were all starving to death because they weren't drawing anything out of the business. I went over after having studied all the numbers. I went over and studied the company a little more and worked out with him what was in effect an earn-out merger. It was a situation where we would give him based on his . . . in other words, if he could meet his earnings projections for '70 and '71. . .sales and earnings. Of course, we tied it to net income rather than the sales, so as to, you know, really nail it down. But if he could meet those projections, he would get X number of shares of stock, and he would receive like . . . and it was like over a million dollars worth of stock, but he would receive like thirty per cent of the stock the first year and then thirty per cent more the second if he made his projections, or a pro rata amount less if he failed to, and then the balance at the end of the earn-out period. So that . . . from a multiple point of view I would not be causing dillution . . . a dillution for earnings that weren't there. Well, we entered into that earn-out arrangement. They took the initial shares on the front end and from that point forward they just didn't hardly get anything. Based on his sales projections and his net income projections, what he had done is he had hypoed into existence this organiztion of about seven hundred people, but it really wasn't going anywhere, had no momentum of its own. And at the end of his earn-out period, what happened is that very shortly after the acquisition a trend developed wherein he was losing as many new people as he was getting. And here again, his basic problem was that he had caliber three type sales people instead of caliber eight, and caliber three type sales people are not competent enough to go on to management positions. So you don't have the momentum of generating management from your sales organization, which, in turn, through the requisites of director qualifications have to go out and recruit more people. That's our major . . . that's our major recruiting program, our sales director program, trying to cultivate management from the sales force. And that didn't work because consultants were not on a scale or caliber with ours at all. His products were not as good as ours either, which was the second drawback and his marketing system had been changed here and there to the extent that it had some problems. So he had problems in marketing, problems in products, and problems in the quality of his consultants. And the total of those three problems caused him to reach a point where, at like eight hundred and fifty consultants, he was losing them as fast as he was getting them. In other words, the company had stagnated, had grown to that size and just wasn't getting any bigger. And he was quite frustrated. I, because I had done an earn-out acquisition, hadn't paid nearly as much for the company as he thought he was going to get originally. But on the other hand . . . what else had transpired was that I had created a box for myself because I couldn't go in there and rearrange Rachel York Cosmetics during the earn-out period, because if I did he would be quick to say that I was the one that caused him not to meet his earnings projections, that I had interrupted his growth by changing his product line, by changing his marketing plan and so on. So I had to sit quietly by and watch that company go no where for two years until . . . but I didn't have to pay for it, which was kind of a nice thing. By the end of 1970 when the earn-out was complete, I went out . . . no excuse me. The earn-out wasn't complete, I don't believe, until the end of '71. Maybe the earn-out . . . yes, the earn-out was . . . we did the deal in '69, and the earn-out period was '70 and '71. So I went in in January of '72 and did the following: First of all, we set up a criteria for active consultants so as to get rid of the people . . . the deadwood, you see, that was really not doing anything--the low caliber people that just weren't performing. And we terminated the sales organization from eight hundred and fifty people down to two hundred and twenty-five in one day. We just sent everybody termination notices. Their production wasn't high enough to maintain activity with the company and the company had a new rule that you had to have so much wholesale cash in such and such a period of time, or you know, you're no longer with us. We just . . . we got rid of the deadwood quick. We discontinued the whole product line, entire Rachel York product line and in its place we put Mary Kay products. We went Ross's with our formulas, entered into trade secret arrangements with them and had all our products manufactured by Ross's. Got them the raw materials, component parts, containers, etc., so that in one day Rachel York Cosmetics was over and now it's Mary Kay. And we also discontinued their marketing program, which was changed substantially from ours and in its place the Mary Kay marketing system. We boiled the thing down to two hundred people and started over again. That's what we did. Since that time I'm happy to report this year they'll do about a million five in sales, and they'll earn about a hundred thousand net income, the Mary Kay way. Why shouldn't they take advantage of all the things we've learned over the years about products, marketing, etc.? This way they can because they're the same as ours. . . as our company. When we do something that works well here then we can implement that program there, you see, providing they're working in the same direction we're working and not a different direction. So there . . . it's bailed out now, but, oh, I'd . . .a year and a half after we terminated that organization down to two hundred people there wasn't anybody left with the company that was in that . . . there's nobody today that came from Rachel York left in the company at all--management, consultants, or anything.

Caruth: With the benefit of hindsight, would you do it over again?

Rogers: Definitely not.

Caruth: Would you get into Australia at all if you were doing it again?

Rogers; No, I sure wouldn't. No, it was . . . it was a super opportunity for our company to learn the problems that are involved in trying to run an international direct selling organization. It really was. For instance, from what . . . from the mistakes that have been made there in Australia, which didn't cost us anything because the amount of money in the considerations were small, the company now has sort of earned its way into the black to the point where we could if we wanted to. We could pick up the phone and close that operation over there entirely. And outside of the announcement itself, sales and net income wouldn't even be affected a bit. I mean, we could probably close that company for two cents a share, you know. So it's just very, very insignificant. Well, as a matter of fact . . . yes, two cents a share. We could just discontinue it, you know.

Caruth: From the benefit of this experience, are you currently planning any expansion into other foreign countries?

Rogers: When we finish our marketing program of becoming a major contender in the cosmetic industry here in the U.S., then we'll most certainly go to Canada. When we go to Canada we'll . . . what we'll do is we'll manufacture everything in bulk here and all our quality control and everything else will be here, and we will simply ship the finished merchandise up there in fifty-five gallon drums and fill cleansing . . . just have a filling operation, a very simple filling operation. Won't have to have manufacturing and all those things. We'll have quality control, of course, but quality control on the finished goods, not on the composition of the merchandise, which will be quality controlled here. In other words, it'll go up there quality controlled. We'll have a very simple filling operation and a standard training and distribution center exactly like the one we opened in Los Angelos, Atlanta, New Jersey. Only this one will be over in Toronto, you know. So it'll be just across the border and it won't be any different as a distribution facility and won't operate . . . it'll operate exactly the same way that we have accomplished geographic expansion within the U.S. We'll gain experience there because we'll learn, for example, in the Montreal area as we get people in that area, we'll learn how to deal with the bilingual problem, you know. We'll learn how to deal with . . . we'll have our literature in two languages--French and English, and we'll begin . . . we'll learn on our expansion into Canada but we will do it entirely different. It'll be a wholly owned subsidiary of Mary Kay Cosmetics. It'll be financed on a budget where it can carry itself for a length of time where we don't have to go in there and make a profit the first year, you know. And we can go right on along . . . and we'll accomplish our foreign expansion into Canada using exactly the same program of geographic distribution that we use here in the U.S. Something that we know and we know how it works. The only difference is there'll be a simple little filling operation, not manufacturing, just filling. Then as their volume increases and warrants it, we'll establish manufacturing. But we'll manufacture here.

Caruth: What about dates as far as that expansion? Are you looking at some time from now?

Rogers: . . . Chicago, which is our last major geographic training and distribution facility, divides the nation up into five quadrants that are equal enough where we can give good service to all our consultants in all five of them and have training facilities and so on available to them in their respective areas, is now under construction. It'll be completed about mid-year next year . . . like say June or July, '75. That will be our last major distribution facility. It will take that facility about a year or a year and a half of operation to reach a level of penetration in that geographic area to the extent that it will be operating as successful as say our Southern distribution facility. It will have reached some degree of maturity. We, by that time, of course, will be finished with all our expansion and our cash flow costs of expansion will be behind us. We'll have finished this three and a half million dollar manufacturing project over here and have manufacturing capability of a hundred million a year. And we'll have all our physical training distribution facilities in and paid for and we'll be accomplishing significant increases in cash. I would say two years from now.

Caruth: Long range are you considering expansion into any other countries besides Canada?

Rogers: Certainly.

Caruth: Such as Mexico perhaps?

Rogers: No, no, Mexico would rank down the list of the countries that we would probably want to expand into for numerous reasons. They have a very large lower class in their population group. Number two problem, they've got tremendous duties on anything coming into the country, expecially in the petro-chemical area. Cosmetics, toiletries, their duties run eighty to 100 per cent, which is quite high. So your product becomes so expensive that if you go that route, you can only sell to the upper class, which is only a small percentage of their population. Then you've got corporate problems of the vara share, fifty-one per cent of the stock has to be held by Mexican national citizens. So you've got a lot of problems from foreign expansion opportunities. I would say that the European market would probably follow Canada, and then maybe into Japan. Of course, those markets three or four years from now may be so bad we don't want to go there, you know. I don't know (laugh).

Caruth: It's a good possibility if you're thinking about England.

Rogers: But we can become a pretty major contender in the cosmetic industry right here in the U.S. without even going to Canada, you know.

Caruth: Let me ask you now to identify for me if you would some of the things that you consider to be the key factors in the rapid growth and development in Mary Kay Cosmetics.

Rogers: Well, I'll . . . in order to answer that question I need to sort of regress a little bit because, you know, the key factor to the growth of this company was, one--the corporate concept of going after field management, not just warm body consultants. That's got to be the key growth factor of the company. Here again, other direct selling operations have an approach to recruiting of . . . you know, if we can come up with some weird contest, and you know, everybody goes and recruits one more person next month, we'll double the company in one month. That's their goose that laid the golden egg approach to the warm body statistical approach to building a direct selling organization, and it's entirely false, absolutely and totally wrong. Our approach is that we've got twenty plus thousand sales people out there among which there are probably, you know, a thousand of them who are capable of becoming a Mary Kay sales director and building their own sales organization in their respective cities. And our major corporate objective is to cultivate that management. If we're successful in doing that, in motivating them to become a sales director for themselves so that they shall be paid commensurate with their ability to build their sales organizations, then recruiting takes care of itself. And a by-product of their success is that they become a sales director which means that we then have the field management necessary to train the people to keep the caliber high. That's got to be the real key to success of this company, just got to be. That plus the . . . well, of course, the company concept of teaching skin care versus selling products is also a strong contributor to the success of this company. It takes it out of the category of the old suede shoe approach to the peddlar's atmosphere of direct selling that we talked about earlier. The American woman is far too sophistocated for the peddlar atmosphere of selling. Then, of course, from a financial point of view the company has not leveraged itself with debt nor have done something else that's very important. Nor have we had a "game plan" as it's called, to corporate growth and that game plan is that we'll create a company A in order to go into business B in order to take over business C in order to arrive at ultimate goal D, which is the Jim Ling, Sam Wylie, University Computer, LTV approach to growth. We found one single thing that we could do and do well, and then the game plan is to do more of it . . . not to . . . you know, not to get a direct selling company going so we could buy out Helene Curtis. Or we could acquire, you know, a foot in the door of the retail segment of the cosmetic industry so that we could go from there into something else, you know, and eventually take over the world. I mean that's just not the way (chuckle) we think.

Caruth: Well, isn't that the reason that a lot of small or medium size businesses fail? They can do one thing well, but then they get greedy and start doing other things that they can't do so well?

Rogers: That's right, you know. If you'll trace the failures. Many failures will be traced directly back to that jack-of-all-trades approach to building the business.

Caruth: It's important, then, for a person in business to recognize not only his strengths but limitations then?

Rogers: Well, let me ask this question. You know, I've been in this business now for eleven years and I'm still learning. I've got a lot left to learn, you know, between now and the time the company is a hundred or two hundred million dollar a year company. I'm going to learn a bunch, you know. How could somebody think that they could step in from the outside and run this company successfully and know how to do it? You know, I'm still learning. So what gives me . . . you know, if that's the case then how . . . why should I think that I could go into the computer business and learn that business sufficiently that I could make the management decisions of what had to be done at certain points in times where I could go and acquire a company? And if it didn't meet it's earnings and sales objectives by virtue of its own management I'd know what to do to get it going again. I don't know that business and they don't know my business either. The retail segment of the cosmetic industry is completely different than what we're doing here. The only thing that would be the same is the manufacturing part of it. What gives me the audacity to think that I could be just as successful in the retail segment of the industry? I would imagine that the same would be, you know a lot of cosmetic companies have gone into pharmaceuticals and vice versa. Pharmaceutical companies have gone into cosmetics. I can show you cosmetic companies that have busted going into pharmaceuticals and I can show you pharmaceutical companies that have busted going into cosmetics.

Caruth: So then it's a good idea to stick with what you know best?

Rogers: Well, I have . . . I feel I could maintain a twenty to thirty per cent compound annual growth rate for the next five years. And if I meet those objectives this will be a hundred million dollar a year company bringing fifteen million net after taxes to the bottom line. Now that's the equivalent in earning capability of a 300 million dollar a year business (rhythmic tapping on desk), and I can do that in five years. Now there's an objective internally from internal growth only, you know. Why do I need to go out and take risks of trying to get involved in something else, plus dillute my management here? If I'm going to be a good president and chief executive officer of this company, then my goals and objectives should be prevalent in the minds of all my top management people everywhere in this company. We ought to be a team knowing where we're going and how we're going to get there.

Caruth: Isn't this perhaps another factor in your growth?

Rogers: Oh, I'm sure it is.

Caruth: The ability to create this team?

Rogers: Yes, of course, that's a factor, but I look on that factor in somewhat of a mechanical fashion. You see, let's put it this way. If I were to describe to you the management technique of this company, I would say to you that the first thing I'd do for the benefit of our listeners here that can't see what I'm about to do, I'm drawing a circle on a piece of paper. Now if I had to ask you where the leadership of that company would lie most people would say right in the center, right in the scheme of things. And I'd be quick to say, "No, that's not correct in terms of my attitude or my philosophical approach to managing a business. I want to be right out here on the outside." I just drew a line off the circle with me on the outside instead of on the inside. And then I think the company . . . and then the company is various departments, you know. If that was a piece of the pie, that's financial. Put an F there . . . and . . . this is maybe legal. Put an L there. And this is administration. Put an A there. And this quadrant here is perhaps sales promotion. Put an SP there. And this part over here is manufacturing. Now put an M there. And this quadrant over here is customer service. Put a CS. And this is personnel. Then, of course, within these various departments there's purchasing, and it's shipping and distribution, and . . . then out . . . of course, in our organization if you consider our total organization in the field, it's training, and it's sales promotion, and it's . . . it's management . . . field management and so on and so forth, all those things. Well, I want to be out here. I don't want to be in the middle of that. What I want to do is hire people, you know, I've got people who can run financial, and put . . . Stubbs right . . . Gene Stubbs right there. Gene Stubbs is a master's degree accountant with years of public company financing because he worked with Arthur Young and Company and, of course, all . . . all the clients he ever worked for were public companies. He understands all their problems and he understands their accounting and so on and so forth. And under him, you know, I've got another degree accountant and a CPA which almost has a master's. You know, I've got three guys there that know a lot more about how to give me this finished budget and tell me what went wrong when something does that I . . . you know, they can do a better job of the financial control of the company than I can. That's why I hired them. If they weren't better than me, then, you know . . .

Caruth: You shouldn't have hired them in the first place.

Rogers: Yes. So they can do . . . they can run that better than I can. Legal, you know, I've got a couple of lawyers back here that can do a better job of running the legal part of it than I can. And in the area of administration I've got a team of guys, I've got a vice president of administration here and a team of guys in branch offices all around and so on that can do a better job. Mr. Goodier and his team of chemists and manufacturing people with years and years of experience in various segments of the manufacturing company than I can. Pope McDonald and Jack Wilder and Mary Kay can do a better job of running the sales promotion end of the business than I can. So my job is to see that all these people do their jobs. I have no . . . from a management point of view I have no daily, weekly, or monthly. . . requirement. I don't do . . .if you ask me to tell you what I do on a daily basis, I have no daily routine at all. There's nothing that's required for me on a daily basis. I, rather, am the requireor. I do all the requiring of all these people to run their portion of this pie.

Caruth: Let me ask you about some of the motivational techniques because this does relate back to . . .

Rogers: Let me mention one other thing.

Caruth: Okay.

Rogers: That occurred to me years ago. If you're in here, in the center of this circle, and these are the activities that make up the total corporation, and if you're right here in the middle involved here in the middle, you cannot see which direction this corporate entity is going. You can have a sense of direction but you can't really see which way it goes and what, you know, and get a total, overall, overview feel of how everything is clicking if you're right in the middle. Now there are a lot of companies that . . . whose founders are located right here.

Caruth: And the company . . .

Rogers: Nothing in the business works. Everything rotates right around them. Part A doesn't know what part B is doing except for the liason that's created by the founder and . . . you know, he has no sense of direction about which way it's going. But if you're located out here removed from the daily affairs or function of all these departments, you can get a good idea of which direction this corporate entity is going.

Caruth: Now initially though you have to be in the center don't you to get it started?

Rogers: Yes, you do until you build your group. Sure you do.

Caruth: At what point does that happen with this company?

Rogers: Alright.

Caruth: Or, at what point did that happen with this company?

Rogers: Well, of course, now in the very beginning I went and got a good lawyer and a good accountant and a good this, that, and the other. And I picked, you know, Goodier, Inc. and a good management in manufacturing even though it wasn't part of the company. And I did have, you know. . . there were a lot of things I did myself but I did have a good team and I think that's important. It's a good thing that I didn't handle the legal problems in forming the corporation. I probably would have forgotten to do something, you know. But even back then I hired people that in various areas of business that were specialized that could therefore do a better job than I could. And they had a great influence on my thinking in terms of the organizational requirements of the company and the legal and accounting needs and so on and so forth. So even from the beginning I had some outside people performing these functions. But then as we became larger and I was able to pick up this capability myself in finance and law, administration, sales promotion, manufacturing, customer service, personnel and so on and on and on and on and on. I began to step back and demand performance and that role changed quickly in there where it reached a point where my job was to see that all these parts did their jobs.

Caruth: But creating the wheel and pulling yourself out so you can watch the wheel turn so to speak.

Rogers: Yes.

Caruth: And see which direction you're moving. I want to go back to this question I was going to ask about some of the motivational gimmicks. It seems that it ties in very well with this quality sales force that you've been able to create out in the field. Tell me about some of these things, how they got started, such things as the golden goblet and perhaps your initial reaction to that sort of thing.

Rogers: Well, you know, here again you're drawing on the expertise of Mary Kay having spent, you know, twenty years in the trenches of direct selling. She knows that people are recognition oriented or motivated in many cases, and so her idea of the golden goblet program was to create initially . . . it was sort of like a club for the top achievers. . . in being among the top achievers in the company . . . was a very prestige thing, and so she created the golden goblet club. Well, I, you know . . . I thought the golden goblet deal was the hokiest (laughter) thing I ever heard of, you know. I . . . you know, she came up, and she said, "You know, we're going to have a club and everybody that can do a thousand wholesale cash in a month is going to get one of these golden goblets." Well, a golden goblet back then only cost six dollars. It's about twelve or thirteen now (laughter), you know, and it's going to be a deal where the top achievers will accumulate these goblets until they've got, I think, ten or twelve of them. And then they'll get a tray that goes with them, and so on, you know, and that's their symbol. . . it's a symbol of success, is what it is. And they wear a little chain with a little golden goblet on it to show that they're among the top achievers in the company. It's a recognition type tying, you know. I thought it was crazy. So knowing that . . . here again back to my well knowing that this end of the business was where she had the expertise I sort of sat back and said, "Well, you know, show me. You think it's a great idea. You're the one with all the motivational experience in this company. I don't know anything about that." Well, I knew . . . I've learned a lot in the last eleven years but I mean we're going back to the origin of this particular golden goblet program. I thought it was crazy, you know, but she's still the chairman of the board. Then she was the president and I was the vice president, so she's still the chairman of the board. So this is her end of the business. And if I think she's wrong I'll put the burden of proof on her to prove to me that she's right. I'll let her know that I thought it was hokie, and I did. That's probably one of the strongest things we ever did, as it turns out. So she has . . . she's thoroughly convinced me that I was wrong, and she was right (laughter).

Caruth: Do you think there's any real difference in motivating men versus motivating women now that you've had the chance to?

Rogers: Sure there's a difference. There isn't a difference in the principles. There are three basic forms of motivation. Fear motivation is the first and most primitive form. So let's take fear motivation and how it might act or react, for example, on one of our sales consultants in the area, let's say, of recruiting, okay? We don't have any rules that say, "Thou shalt recruit, or you'll be terminated," you know. So . . . nor do we have any policies or regulations or anything of that nature to recruiting. If a consultant wants to just be a consultant and hold beauty shows and sell, that's fine. She doesn't have to recruit anybody. She has no obligation to anybody to recruit so fear motivation doesn't really work on her. The second form of motivation is incentive motivation. We provide a four per cent recruiting bonus. So you would naturally think, "Well, incentive motivation is pretty good," you know. They get a four per cent commission on what the person sells that they bring into the company. But the fact of the matter is, when you get down to the primary forms of motivation, our girls are of a caliber that they're not going to recruit just for this four per cent. It's just no big deal, you know. So the girl does two hundred dollars in commission per month. You know, well, that's just not strong enough in the area of incentive motivation for it to work properly. So here in the area of incentive motivation you've got a problem that when you look at our four per cent recruiting bonus, if I say it's ineffective as a for of incentive motivation, your question to me might well be, "Well, why don't you discontinue your four per cent recruit program?" And my answer would be that the four per cent recruit commission are not an incentive recruit but a reward for having recruited, and there's a significant difference. So the third form of motivation is attitude. And that's the biggie, you know, that's where all the action is. And what I mean by that is when a consultant in our company develops a positive mental attitude, you know, wherever she might live in, you know, Monroe, Louisiana, that she's a quality consultant and she's going to become a director, a sales director in her area. She's going to build a sales organization, you know, when she develops a positive mental attitude that she is in fact going to become a Mary Kay sales director in a specified length of time and that's going to be a career for her, then she starts to recruit like crazy. Now prior to that she didn't recruit for fear motivation. She didn't recruit for the four per cent but when she decided and maybe she was motivated by Mary Kay saying, "I think you'd be great," you know. Who knows? Or it may be because she was a member of the golden goblet club and then became a member of the future directors organization and then from there started getting letters from Mary Kay that said, you know, "You'd be a great sales director in your city, you know. Why don't you do it?" And the girl developed a positive mental attitude because of being motivated by Mary Kay that she was going to do it. Maybe that's what it was. Or maybe it was a sales director motivating her or an area director motivating her, or maybe she self-motivated herself. Or maybe her husband came home one day and said, "You know, you've been doing real well with Mary Kay. You've been making some extra money, but those sales directors make a lot of money. I don't see why you couldn't be the best sales director that company ever had. You've recruited four recruits. All you need is six more or whatever." Her husband maybe motivated her. I don't know. Or she was self-motivated. But nevertheless, when attitude motivation takes place and that person develops a positive mental attitude that they are going to seek to achieve that success, you know, and right here you need to say for who. For themselves. Then all . . . once the attitude motivation is right all three forms of motivation start to work, and I'll show you how that works because we have ten recruits prior to entering your director qualification period. You remember we went over that. From a standpoint of fear motivation, it seems that consultants who are about to submit their letter of intent to enter director qualification they have a deadline to meet by a certain day of the month so they can submit the letter of intent so they can enter qualification in a certain period of time. It seems that they're able to recruit more people during that last week prior to submitting that letter of intent (chuckle) than they've been able to recruit in one week in their entire Mary Kay career. That's fear motivation. And then I told you, remember they had to qualify for three consecutive months and at the end of the third month they had to have a minimum of twenty-two active consultants in their unit. Now that's fear of failure. It seems that the only time that recruiting record is broken is in the last week of the third month of qualification. Those girls recruit like crazy (laugh). If they're at eighteen and they need twenty-two, I can guarantee you they're going to get four recruits that last week to meet that qualification requisite, you see. So fear motivation plays an important part in recruiting once the attitude is right. And then, of course, the incentive motivation is, you know, the incentive to make . . . we're not talking about eight dollars a month anymore. We're talking about the incentive to build a sales organization and make two or three or four thousand dollars a month. And that sure falls in the area of incentive motivation. So once the attitude motivation is right, then all three forms of motivation start to work. I've always believed that for anybody to be successful, they must have all three basic forms of motivation working. It's a desparate sort of thing but it causes you to discipline yourself. You know, my fear that next year's numbers are not going to be what they're supposed to be causes for me to go to extreme lengths of budgeting and planning. And if I've got first quarters . . . my first quarter earnings projections are low and my second quarters earnings projections are high, that disciplines me for fear of having to show those numbers. And if they actually do come out like that, that causes me to take extreme action to prevent this from happening, you know. The incentive rewards, you know, of course, for me could be in the millions in terms of stock values and what have you, but . . . but incentives are not only that. It's recognition and it's all the other things that go with incentive motivation. But for anybody to be successful I think all three forms of motivation have to be working on them, not just one. Show me a guy that just works for incentive motivation and there's no fear motivation and his attitude's not right. You know the old saying, "You can do everything wrong with the right attitude and still somehow succeed. And you can do everything right with the wrong attitude and still somehow fail, you know. But . . . yes, men . . . motivationally, in terms of the principles of motivation are the same on men as they are on women. You might go about them differently to appeal to their sensitivity in the area of, you know, something that would be . . . you see, like our little old girls when they're in their qualifying period, they've got to do two thousand the first month, twenty-five hundred the second, and three thousand the third. If they fail, they've got to start all over again. A man might well say, "Well, I'm running a little short. If I miss it this time, I'll make it . . . I'll wait three or four months. I'll get more people, and instead of going in with ten recruits I'll go in with fifteen, and I'll make it the second time. So that segment of fear motivation would be different for a man. He would not be as afraid to fail, perhaps as a woman. But a woman in her three months of qualifying, boy if she's running short her second month, she thinks the whole damn world is going to come to an end, if she doesn't make it, see. So it's the approach to motivating people and the difference of how motivation affects people is going to be different but the principles are going to be the same.

Caruth: So the man having, perhaps, a more long-term view than a woman.

Rogers: Yes. Let's say . . . the ability to cope with failure is a little more prevalent in a man than in a woman. You know, if I was baking up a pecan pie and the damn thing didn't turn out, you know, I'd get mad. I probably would . . . "Dad gum it," you know, "Shoot, I've been working an hour and a half on this thing and look at it. It's just . . . it's slop in the center." I'd probably get angry. I'd probably take it out on the oven and throw it in the trash, and say, "The hell with it." And five minutes later I would have forgotten about it. And if my wife came home and said, "Hey, where's that pie you were fixing?" I'd say, "That damn thing, I threw it out," you know. "Let's go out to eat, you know, I'm tired." But if a woman's pecan pie falls in the middle, you know, she might sit in the middle of the kitchen floor and cry, especially if she had told her husband she was going to have it for him for dinner. See, there's a difference in the emotional level. But the principles are the same. Maybe men are less . . . let's just say that men are less sensitive than women, in most cases.

Caruth: Let me ask you a final question that I'm asking all the people I talk to. In looking at the Southwest and in particular looking at the Dallas area, we seem to see here a number of businesses that have sprung basically from nothing and have become quite successful. Why do you think it is that perhaps in this area like maybe no other area this spirit of entrepreneurship exists?

Rogers: You know, I don't know that. You mentioned that to me, you mentioned that to me, you know, when we first got into this. And you said that you noticed that in this part of the country . . . correct me if I'm wrong . . . I believe you said that entreprenuership flourished where in other areas of the country that you had looked into quote-unquote, I don't know if you've studied them there. But like the Northeast, for example, that didn't seem to be the case.

Caruth: As a general statement that seems basically to be true without a lot of study.

Rogers: I'd . . . if you ever decide to study that, I'd like for you to come back and answer that question for me.

Caruth: That's one of the questions we're trying to answer in our series of interviews with people.

Rogers: I haven't studied entreprenuership in the Northeast. I know for a fact that it's flourished here, you know, but I haven't studied it in the Northeast and seen how it's failed there to be able to give you a comparative analysis of why it was usccessful here and not there. Well, no one's proven to me that it was unsuccessful there, you know. It may be unnoticed up there because there are so many big businesses.

Caruth: Well, it seems to be prevalent here. When I say prevalent I guess maybe the busiessses that have succeeded have succeeded on a larger scale, perhaps, for whatever reason.

Rogers: I think people are basically the same everywhere.

Caruth: Is there perhaps though a difference in the openness of society, say, in Dallas where it's more receptive to new businesses and new ideas?

Rogers: Well, it's just as hard to raise venture capital in Dallas as it is in New York (laughter), you know?

Caruth: No, really that's a difficult question for which there is really no answer and certainly we hope to come up with some insights into it.

Rogers; Yes, I don't, you know, I don't . . . nothing comes to mind that would be just a real great thing for me to tell you right now (laugh) about that subject. I just don't know, you know, you grasp for answers. In other words, you could . . . you could submit possibilities that might . . . you might be able to prove in a conclusive sort of way we're right or wrong. The financial community of the Northeast is very sophisticated. The people involved in the business world of the Northeast have become very structure oriented. Almost back to the Peter Principle mainly because it's an old area. There are a lot of large, old, established businesses in the Northeast which have a lot of structure. As a result of having a lot of structure it's, you know . . . it's really hard for a guy to get to the top without working his way up that ladder of success for a long period of time, even to the point of waiting for people to die to get to high levels of achievement up there. And the . . . as a result of the large businesses that are structured and sophisticated, everything is sort of a new frontier as viewed in contrast with the Northeast . . . this part of the country. We're not as sophisticated nor are we as structured, I don't think, in the corporate world down here. And so that in itself provides the . . . what shall we call it . . . the challenge of accomplishment? Down here that perhaps doesn't exist there. That might have some bearing on it. I don't know.

Caruth: I'd like to thank you for a most interesting interview. I think we've covered most of the areas that I had down.

Rogers: Good.

Caruth: Thank you.