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As Amnon Rodan, chairman of Rodan + Fields Dermatologists (Rodan + Fields or R+F) and Lori Bush, the firm's president, flew from the east coast back to R+F's San Francisco, CA headquarters, they reflected on their discussions over the past few days. It was July of 2010, and the two had been meeting with Oran Arazi-Gamliel, an industry advisor and former colleague of Bush, to discuss whether the firm should restructure its approach to training, managing, and incenting the 9,500 independent sales consultants who represented and sold R+F's skin care products.

R+F was founded in 2002 by two Stanford University-trained dermatologists: Rodan's wife, Dr. Katie Rodan, and her colleague, Dr. Kathy Fields. Prior to starting R+F, the two doctors had developed and had great commercial success with Proactiv, the leading anti-acne regimen. Over time, R+F had broadened its product line and by the summer of 2010, it had 9,500 independent sales "consultants" and annualized revenue of approximately \$18 million, up from \$10 million in revenue for 2009. (See **Exhibit 1** for summary financials and **Exhibit 2** for management biographies.)

Over the last year, there had been heated debates in the R+F leadership about the firm's approach to motivating the desired behaviors and business practices of its "volunteer" sales force. Since R+F's sales consultants were independent contractors whose compensation was based solely on retail commissions and bonuses, the firm had been frustrated by huge swings in its consultant recruiting efforts that were driven primarily by the R+F's monetary incentive programs. Arazi-Gamliel, an industry expert in direct sales, had—in their most recent meeting—proposed a radically different approach to solving this persistent problem. He explained, "To get away from the addictive 'bonus crack' culture among R+F's consultants, the firm needs to move to a behavior-based model that trains the independent consultants in the behaviors that underpin success and taps into their *intrinsic* motivation: the satisfaction that comes from mastery, autonomy, and a sense of higher purpose."

Arazi-Gamliel had developed a program outline, and Rodan and Bush now had to decide whether to roll it out or not. Reactions of the senior R+F leaders to Arazi-Gamliel's recommendations ranged from those that were excited by the prospect of switching gears and making a radical shift, to others who felt that this dramatic change would be a distraction the firm could ill-afford at this critical juncture in its evolution.

The Prestige Skin Care Market¹

Historically, the U.S. cosmetics and skin care products market had been segmented by price point and distribution channel. More than half of the beauty care products were priced at the low to middle end of the market and were sold through mass-market outlets such as grocery stores, drug stores,

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and mass-merchants including Wal-Mart and Target. Major competitors in the mass merchandise channel included Revlon (Almay and Ultima II), L'Oreal (Maybelline), and Procter & Gamble (Cover Girl, Olay, and Max Factor). The upscale or "prestige" cosmetics industry was dominated by brands carried predominately in high-end department stores. Corporate giant Estée Lauder led the field with a suite of well-known brands including Estée Lauder, Clinique, and La Mer. Other competing brands included Chanel, L'Oreal's Lancome, Clarins, Elizabeth Arden, and Shiseido. Recently, specialty beauty stores such as Sephora, spas and salons, and the Internet had also become popular sources for prestige beauty care products.

Observers expected skin care sales in the U.S. to grow to just under \$5 billion in 2013.² (See **Exhibit 3** showing the sales volume/ growth trends of the various product segments.) The anti-aging market segment, the focus of R+F's product line, had seen the fastest growth in the facial skin care category with sales of \$1.6 billion in 2008 and an average forecast growth rate of 20% over the five years until 2013,³ a result of the growing demand from "baby boomers" (ages 48 to 66) and younger women for products that reduced or slowed the signs of aging.

History and Evolution

Drs. Rodan and Fields met during their residency training in dermatology at Stanford University. Upon starting their respective practices, both professionals recognized they were seeing an unusually high number of patients with adult acne. Dr. Rodan noted, "According to the research, only 3% of adults in the U.S. have acne. Based on the number of patients I was seeing on a daily basis, all 3% must have been coming to me and my practice!"⁴ Together, the doctors realized that their patients were frustrated by the "spot" treatment products available in the market and decided to develop a comprehensive set of products for both preventative and after-the-fact acne care. Rodan elaborated:

When Katie and Kathy launched Proactiv in 1994, the acne market was estimated to be \$250 million. Initially, they thought of selling the concept to Neutrogena. Neutrogena was interested but didn't bite. They encouraged Katie and Kathy to do an infomercial instead. They were convinced that the Proactiv concept would succeed only if it were explained in great detail to potential users, a difficult approach to execute well in a retail setting. We then looked into infomercials and licensed the product to Guthy-Renker, a direct marketing firm that had successfully launched several products sold via infomercials, including the Tony Robbins motivational recordings and celebrity-endorsed cosmetics. The rest, as they say, was history. Within three years, Proactiv sales were reported to be bigger than all of Neutrogena.

What Katie and Kathy achieved with Proactiv was beyond our wildest dreams. A key reason for the success was Guthy-Renker's belief in simplicity of message. With a direct infomercial, you want to limit choices so there is no confusion for the consumer. Based on this philosophy, Guthy-Renker wasn't interested in expanding the product line. But, Kathy and Katie are voracious product developers and that was the impetus to launch a new company - Rodan + Fields - with a broader suite of skin care products.

In 2000, the doctors began working on new product formulations and, in 2002, they started Rodan + Fields and launched Multi-Med Therapy, an 18-product line of skin care regimens targeting a variety of skin problems associated with aging. The line was sold in three high-end department stores and online. Rodan elaborated:

Our agreement with Guthy-Renker prohibited us from doing infomercials for other skincare products. So we decided to try high-end retail and went to Fred Segal, an upscale, trendsetting store in Santa Monica. Within six months Estée Lauder approached us to buy the

firm. By July 2003, the deal was done, with Kathy and Katie remaining as co-presidents. We thought Estée Lauder was the perfect acquirer—they had fantastic people, a great reputation, and they owned about 40 percent of the skincare and makeup floor space in department stores. Then, reality set in. We were a small and embryonic brand within a very big firm. We trudged along but we found the retail experience to be very challenging, especially given our background in infomercials. We convinced Estée Lauder to go to QVC as part of their own channel diversification. Katie and Kathy were able to sell more in an hour on QVC than we'd sold standing on the retail floor the whole year.

As we continued along, we were still frustrated by the pace of growth. Based on our experience with infomercials, we believed in the power of communicating directly with our customers. Our product usage is complex - different regimens for different problems. Further, our customers are managing and not curing a problem, so customer education and regular daily use is critical. These points make it a more complicated sale than you could achieve in an 8-second bite at the retail counter in a crowded department store.

So, we decided to try home parties. We'd find someone to host an event and Katie and Kathy would present to the 40 to 50 (mainly) women who came. Almost everyone who came would purchase our products, and almost everyone purchased more than one regimen. What really tipped everything for us was when we had one of those events at our then-publicist's home in Southern California. One of the guests was a television news producer for ABC who filmed the party and aired it on the news program. We soon learned that ABC was getting calls from people who wanted to get involved with our business. That's when the light bulb went on. It seemed like direct selling was the closest thing to an infomercial without being an infomercial. We decided to transition out of retail into this channel.

In 2007, Estée Lauder sold the business back to the firm's founders. While Estée Lauder saw the potential in direct selling they were concerned about negative perceptions that might spill back on their core brand: "They had no experience with direct selling, and were concerned about the bad reputation attached to multilevel marketing (MLM)." Shortly thereafter, R+F hired Lori Bush, former president of the personal care division of Nu Skin Enterprises, Inc. (Nu Skin), as president and general manager to oversee R+F's entrance into the direct selling arena. She commented:

With direct selling, you essentially bring your customers right into your sales organization, training them on the products so they become the ultimate informed consumers, and in the process, they become product advocates to a broader audience. It is a powerful way to communicate the brand's sophisticated story, which I have never really seen work effectively in a traditional bricks-and-mortar retail environment.

Direct Selling

Direct selling had its roots in "peddling" and was ultimately institutionalized more broadly by companies like Avon in 1886 and The Fuller Brush Company in 1906. Awareness of direct selling became more widespread in the U.S. during the 1950s and 1960s after the founding of Tupperware, Amway, and Mary Kay.

According to the Direct Selling Association, in 2009, the industry generated \$28.3 billion in sales in the U.S. and \$117.6 billion worldwide.^{5,6} (See **Exhibit 4** for historical direct sales data.) In the U.S., 16.1 million people were engaged in direct selling of whom 82% were women. Thirty-two percent of U.S. direct sellers were between 35 and 44 years of age, and an additional 25% were between 45 and 54. The vast majority—92.5%—worked part-time, and spent a median of eight hours on their businesses

a week.^{7,8} (See **Exhibit 4** for additional statistics on the direct selling industry.) Products sold through direct sellers included cosmetics, jewelry, home cleaning products, toys, vitamins, and financial and legal services. In 2009, personal care products (beauty, skin care) represented over 20% of the revenue in the channel. Several direct sales companies competed in the beauty and personal care sector, including Amway, Avon, Mary Kay and Nu Skin. (See **Exhibit 5** for an overview of the top ten direct selling companies.) By 2009, approximately 74% of adults in the U.S. had purchased products from a direct seller.⁹

Most direct sales organizations used either single level or multilevel marketing (MLM) compensation plans. Consultants (sales reps) typically earned money from “retail profit” as well as commissions on product sales that ranged from 25% to 50% of retail prices.¹⁰ In a “single level” plan, compensation was based *exclusively* on individual product sales with no financial incentives for recruiting additional direct sales consultants. MLM plans, first introduced in 1945, paid consultants not only for their own product sales, but also for a consultant’s “downline” sales, sales generated by those consultants they had recruited. MLM plans rose in popularity to become the most common compensation structure in direct selling. In 2009, 94% of direct sales firms used some form of multilevel compensation plan structure.¹¹

In general, MLM plans varied by width—the number of additional consultants that could report directly to the consultant who had recruited them—and depth—the number of generational levels down on which commissions would be paid. Despite ongoing image challenges, there were many legitimate companies with MLM plans, and the direct sales industry had attracted favorable reviews from outside observers and investors. In 2002, Warren Buffet’s Berkshire Hathaway acquired The Pampered Chef (a MLM firm with over \$500 million in revenue), and CNBC’s *Mad Money* host, Jim Cramer, was a frequent and outspoken fan of direct selling.

Growing the Rodan + Fields Business

Once they committed to using the direct sales channel, R+F’s company-sponsored home parties successfully transitioned to larger events at hotel meeting rooms and ballrooms. By 2008, R+F had pulled out of department stores entirely. The company grew its consumer awareness largely through unpaid editorial media coverage and word-of-mouth referrals. Rodan commented: “One of the things we learned from our Proactiv and retail experience was the power of reference selling. People came in and said, “I know you from Proactiv and you made a huge difference in my life, so I trust what you are doing and therefore I’m going to buy whatever you’re selling.” We found the link from awareness to purchase to be very, very strong.”

Courtney Winget, R+F vice president of marketing, added:

Excluding Avon, we get more media coverage than the top ten U.S. direct selling companies combined, creating a high level of brand awareness from very credible sources. After that, customers find out about us through their friends and through our consultants. Our consultants are our best advertising because they all have gorgeous skin! Customers become so passionate about the brand that they end up becoming consultants.

By 2010, R+F’s product offerings included over 45 SKUs in six categories focused primarily on anti-aging, acne, and general skin care treatments. (See **Exhibit 6** for product details). Most categories included individually packaged regimens, consisting of three or four products that worked together in a step-by-step system to treat a specific skin condition. The regimens contained a 60-day supply of products and retailed for \$133 to \$200.

Individual products were sold primarily through R+F consultants who used company-provided websites to enable on-line transactions (see <https://tester.myrandf.com/Home.aspx>). Approximately 65% of R+F' sales volume came from "preferred customers" enrolled in a product subscription plan for automatic refills every two months. (Preferred customers—PCs—received a 10% discount and free shipping on their orders.) The remaining 35% came from consultants buying products for themselves, to promote the business, or for sales to "retail customers" (i.e., non-preferred customers). The business had gross margins that averaged 85%.

Branding and Marketing

The R+F executive team recognized the strength of the doctors' brand equity. Bush noted: "The brand equity that Katie and Kathy generated from their legacy with Proactiv, as well as the time the R+F brand lived in department stores under Estée Lauder, helped develop a very strong relationship with the beauty press." Nonetheless, Rodan and Bush recognized the need to expand the doctors' brand equity from acne treatments to include anti-aging and general skin care as well. Early in the firm's history, Bush and the founding doctors co-authored *Write your Skin a Prescription for Change*, a best-selling book on skin care in the beauty and women's health categories.

Bush described another means to leverage the success of the founding doctors:

Amnon came up with the idea of using social media for what he called "Doctor TV." The concept was to have Katie and Kathy talk about different skincare concerns. Courtney expanded on the idea and called it "Skinpact News." Once a week we release a video modeled after the ESPN segment called "Pardon the Interruption." Katie and Kathy banter about a current pop culture event. The videos are no more than two minutes long and in each one, the doctors ask, "So what's the skinpact?" Somehow they relate the news event to skin care. The segments are released into social media by our consultants who have a networking "widget" that directs viewers back to their company-provided personal websites.

Competition

R+F executives considered their competition to be both other direct sales organizations as well as prestige beauty companies. Arazi-Gamliel provided his perspective:

We have several types of competitors: firms in the direct sales channel without skin care products, firms in direct sales with skin care products, and firms outside of direct sales in other channels selling skin care products. Within the retail world we're probably positioned most similarly to Estée Lauder's Clinique brand. We offer premium products, but not at the luxury price point levels of brands such as La Prairie and Lauder's La Mer. We have many competitors in the high-end skin care category, but we believe our products are more efficacious than most and offer more value.

Within the direct sales channel, we are competing not only on products, but also on compensation plans. For many who are seeking out direct selling as a profession, the two key compensation plan questions are: how quickly can I make a return on my initial kit investment and how long will it take to create long-term sustainable wealth. There are plenty of serial network marketers out there who go from firm to firm based solely on the comp plan. We are not looking for those individuals.

Winget had a slightly different point of view: "We benchmark our product performance against what the doctors can provide in their practices. We position ourselves as delivering real clinical

benefits without a visit to the dermatologist. From a product point of view, we are not like the other direct sellers.”

Direct Sales at R+F

As R+F rolled out its direct sales effort, they focused on people who already had an affinity to the brand, such as department store counter salespeople and former Proactiv customers. Within two months, the firm signed over 2,000 sales consultants. There was no typical profile for the R+F consultants, although 93% were women. Winget noted, “Some are women whose children have left for college and are now looking for something to do. Others have taken time off to raise their children, but miss the workplace. Many were highly successful professionals in their past lives. We get former real estate agents, pharmaceutical reps, teachers, you name it—couples too.” Rodan added: “We built from the ground up because we didn’t want aggressive network marketers who were in it only for the money and didn’t share our vision for the brand.”

R+F maintained a separate website for positioning and marketing consultant opportunities (i.e., distinct from the “product” website). (See <https://tester.myrandf.biz/Home.aspx>.) R+F consultants could enter the business with an investment as low as \$45 for basic marketing materials. Most opted to start with a \$395 business kit or a larger \$695 business building kit that included all four of the firm’s core product regimens. Consultants could sell R+F products person-to-person, through group events, or online—leveraging social networking to connect people to their personalized websites or Facebook pages. Bush commented:

For people who are interested in developing a part-time business, it’s relatively easy to bring in somewhere between \$300 and \$1,000 a month in supplemental income. The business-building consultants, the ones who have joined for either replacement income or to pursue a dream of financial independence, have a bigger job ahead of them as they must recruit people to R+F. Most of the people they bring in are just going to be looking to engage in the community, make a little extra money, be a skin care industry insider, get to know the doctors, and just participate. To be a high-performing consultant, you need to actively filter—look for the people who are going to run with you and build the organization. We have yet to develop a deep bench of high-earners. There are only nine consultants making over \$5,000 a month.

R+F recruited its first consultants through word of mouth, at informal home events conducted by early adopters, and via company-sponsored business presentations. There was no formal selection process and no sales experience was required. Rodan commented, “One of the age-old questions in this channel is how to predict who is going to become a successful consultant. I don’t believe you can. Generally, you bring people in and you never know who is going to be a leader.”

The average consultant at R+F generated revenue of about \$2,400 from product that they purchased for personal use or ad hoc resale and through sales to PCs. New consultants actually generated more revenue through personal consumption and PC sales in their first year (than in subsequent years) due to several factors: “In part, they are buying their start-up kit, and, in part their first year is about building a consumption base, compared to subsequent years, during which the focus is on supporting team development. So their direct productivity averaged about \$3,225 in year 1. This is comprised of a \$525 start-up kit purchase, 3 PCs with \$540 annual purchases each, and \$1,080 of other revenues from retail sales or personal use.”

The firm had an explicit strategy of designing a compensation system that would balance the incentives for product sales and recruiting. Arazi-Gamliel explained:

The way I look at it, most companies' comp plans are a "blanket" that can only cover the "head or the toes," incenting either product sales or recruiting new consultants. But we believe that we've found a way to cover both objectives with our preferred customer (PC) loyalty program. The PC is a relatively easy sell, and we let consultants who only enroll PCs count as "legs" that help their sponsor qualify for overrides on downline generations. We have a relatively large group of consultants that make a few hundred or a thousand dollars a month through this retail loyalty program, and are absolutely thrilled with the flexibility in their work schedules and the extra cash.

R+F Compensation Plan

R+F's compensation plan offered five ways for a consultant to earn: retail profit, consultant commissions, personal team commissions, generation overrides, and performance bonuses.

Retail profit Consultants earned retail profit on sales to retail customers and preferred customers (PC). Retail profit was calculated as the difference between the listed consultant wholesale price for a product item and the price the customer paid for an item. Each product item had three distinct prices:

- Ad hoc retail customers purchased at retail price;
- Preferred customer received a 10% discount from retail price;
- Consultants paid the "wholesale price," which was around 75% of the retail price.

In addition, a sales volume (SV) qualification amount calculated at the consultant ("wholesale") price was used for qualification and commission calculations. For example, for an item that had a \$100 retail price, a consultant would pay \$75, a PC \$90, and a retail customer \$100. The consultant earned the difference between each price and the consultant price, so she would earn \$15 in retail profit on a PC order (\$90 - \$75) and \$25 dollars on the retail order (\$100-\$75). One hundred percent of sales were transacted online through either the consultant's personal website (for example, see: <https://tester.myrandf.com/Home.aspx>) or through the main corporate website with the customer identifying her/his consultant during the check-out process (see: www.RodanandFields.com).

Consultant commissions (also known as: Level 1 Commissions) Consultants who generated minimum sales volume of \$100 per month became "active consultants" and were qualified to earn "Level 1 consultant commissions" (i.e., a commission over and above the "retail profit" described above). They earned a 10% "Level 1" commission on their sales volume to any PCs and also the sales volume of any consultants they had recruited but not on sales to ad hoc "retail" customers. Consultants also did not receive commissions on purchases made at wholesale prices for their personal or business use.

Personal team commissions Once a consultant reached minimum wholesale sales of \$600 per month on their sponsored/recruited consultants and/or PCs, they qualified for "executive consultant" status (EC) and an additional 5% personal team commission. To continue the preferred customer example from above, the PC would purchase \$100 worth of product for \$90, equating to a sales volume of \$75. The consultant would thus earn \$15 in retail profit (\$90-\$75) on this order, 10% Level 1 consultant commissions on the \$75 sales volume (\$7.50), and 5% Personal Team Commissions on the \$75 sales volume (\$3.75), for a total of \$26.25.

Generation overrides R+F executive consultants could advance progressively up to Level V Executive Consultant (LV EC) status, as a function of the number of executive consultant "legs" below them. The number of "legs" i.e., the number of personally sponsored ECs, determined the

number of generations down upon which a consultant could earn “override” commission. Each time an EC developed a leg with another EC below, that was considered a generation. With eight qualifying EC legs, a consultant achieved the highest ranking as a Level V executive consultant. As a LV EC, the consultant was qualified to earn commissions on up to five downline generations plus their personal team (effectively generation zero). As a result, the comp structure encouraged not only “deepening” the organization, but also broadening it. On average, R+F paid 39% of its wholesale sales volume in commissions (not including retail profit earned by consultants). (See **Exhibit 7** for details on the R+F comp plan, including qualification levels, a depiction of the generation override system, and for a scenario where R+F was paying the maximum commission payout.)

Performance bonuses New Level V Executive Consultants were also invited to San Francisco for training at the firm’s corporate offices and a weekend in the California wine country. The firm also offered a variety of short-term bonus programs that changed frequently to promote and reward participation and advancement in the firm’s compensation plan.

Joules Holmes, R+F’s senior director of business intelligence who oversaw the comp plan, offered her perspective:

You have to decide how “deep” you are willing to pay in your comp plan. It is all a function of how much margin has been built into the price and how you want to allocate it. Another dimension is the minimum sales volume you have to hit to qualify for various levels of payout. Our level—\$700/month to qualify for generational overrides—is very low. We wanted to build a plan to attract people who wanted to sell great products to moms on their kids’ soccer teams in order to make their monthly car loan payments at one end of the spectrum, and more serious players who sought to create real wealth-generating businesses.

Bush continued:

The combination of high monthly minimums for consultants and high requirements for qualifying a leg creates a system where the bulk of sales volume comes from internal consumption. This approaches the “pyramid scheme” behavior that gives the industry a bad rap. Because our PC program is based on an easy sale, because we count consultants who only bring in PCs as qualifying legs, and because we have a low monthly minimum for qualifying for commissions and downline overrides—we really have built a system that encourages both product sales and recruiting. At least that is the theory.

In practice, consultants are motivated by the economics our comp plan creates, and we have found that bonus programs that reward consultants for the sales generated by their new recruits do change behavior. A typical program might set an objective of recruiting 6 new consultants over a 3-month period. In a given region, perhaps 30% of consultants will sign-up to participate. Of those, perhaps 20% manage to recruit 2 consultants in the first month, 15% recruit two in month 2, and 12% recruit 2 in month 3. So, 12% succeed in reaching the goal - we then pay a bonus to the existing consultant on the early revenue generated by these new consultants that averages about \$500. These bonus programs really have \$0 fixed cost for us—we only pay for success. But we have created huge swings in recruiting performance.

We are not happy with the fact that this is so highly variable. Increasing the efficiency of the consultant recruitment process has a huge impact on our performance. One way to think about this is the “viral” coefficient: the conversion ratio (of new consultants signed-up relative to the number initially approached) times the number invited per consultant. [E.g., if each new

consultant invites five people, and the acceptance rate, on average is one in five, then $5 \times 20\% =$ a viral coefficient of 1.]^a

For us, any improvement of the viral coefficient over 0.5 is very attractive. But we come in lower than that because many of our consultants don't try to build a business in this sense and there is a level of attrition each month as some consultants decide the business isn't for them. (See **Table A** below.) On average, when not incented by a bonus program, a consultant recruited .05 new consultants each month.

Table A R+F Consultant Recruiting Behavior, 2009

Number of Consultants Recruited	% Consultants
0	72%
1-5	24%
6-10	2%
11+	1%

Source: Company.

As of June 2010, the number of active consultants was about 9,500 and the number of “check-earners” we had on a monthly basis was around 2,370. [Check earners were consultants who received a check in any particular month, and actives were consultants who had received a check within the past 12 months, including for any product bought for personal consumption.] At the same time, our baseline for the number of people we bring into the plan on a monthly basis as consultants is around 460 [Note: this figure does not include recruitment activity during bonus programs.] Across the board, our consultants are able to get about one in 10 to join. So, in total, consultants had been inviting about 4,600, or just under two invitations per month per active consultant. On average it takes about 18 days from the time of initial introduction to actual enrollment. Inviting two people a month gives us a viral coefficient of 0.12.

Moving the needle on the viral coefficient starts with invitations. For example, inviting five people a month gives a viral coefficient of 0.3. And, after three months, you have close to two new people on the team. The key is to make inviting an everyday event: if you average just one invitation per day – 18 invites per cycle – the viral coefficient goes to 1.8, and you're talking about 60 new people at the end of three months. In any MLM business, the never-achieved Holy Grail is full replication. (See **Exhibit 8** for a snapshot of the math around virality.)

Arazi-Gamliel offered his view, “There is a saying in the business: ‘deep for dough and wide for show’. When you analyze the performance of some of our high earners, a third to two-thirds of their total comp is coming from their override on consultants five or even six levels down. They got some real strong people early on, and they have, in turn, created deep organizations.”

Rodan described some of the challenges the firm was facing with its sales force in 2010:

Our brand is so strong that it's much easier to go the retail route, selling products and signing up preferred customers. As a result, a majority of our consultants were focusing on

^a The viral coefficient (K) was used in a formula to compute the number of customers at the end of a time period as equal to beginning customers + (beginning customers x K).

product sales and weren't fully capitalizing on the compensation plan. Not everyone is going to be an effective recruiter, but the implications of moving the needle even a little bit in that direction are incredible. We tried a number of bonus programs, adjusting them over time based on how well they drove results. However, these incentive programs created spikes in recruiting rather than consistent, sustainable organizational growth. Consultants were chasing bonuses, but the results were short-lived, leading to discouragement and attrition.

Bush amplified:

In direct selling, legal limitations (against so-called "pyramid schemes") prevent you from providing incentives based purely on the recruitment of new consultants.¹² But, you can bonus on the sales volume associated with a new recruit as soon as they are brought in. In March 2010, we ran a bonus program called March Madness where for each new person who came on board and purchased a starter inventory kit, we offered a cash bonus to the recruiter. The bonus rate increased based on the number of people recruited and inventory sold. We saw a dramatic lift in sales that month! In months with no such program, we might add 300 consultants; when we had an effective bonus program, we added 900 consultants. (See **Exhibit 9** for samples of some of these bonus programs.) To us, it felt like we were creating addictive behavior. The attitude of our leading sales people was "There has to be more, there has to be more. What's next, what's next?" We had inadvertently created a "bonus crack" culture.

We have a lot of people who view our program as a nice comfortable way to make some extra money. They are "in the hot tub" – comfortable, enjoying time with their friends and family – working three or four hours a week, making \$300 to \$500 a month. While many of them are doing this primarily with PC volume, a few in this group have PC legs that qualify them for additional downline revenue.

We say, "Of course, it is comfortable in the hot tub, but if you want to grow a business, you need to jump into this cold swimming pool over here, dedicate eight or 10 hours a week to it, and start to swim laps and within a year you could be pulling down \$4,000 to \$6,000 a month." Lots of direct marketing companies don't have a hot tub – they want everyone in the pool. We get a lot of volume from our hot tubbers, but we continually ask ourselves, are we making it too easy to stay there? Industry consultants and veterans have told us we should stop letting consultants who only enroll PCs count as qualifying legs and that would really drive people to do more real recruiting. Can we push more people into the pool without ruining it for the people in the hot tub? Can we have our cake and eat it too?

Arazi-Gamliel amplified: "Another argument against the PC program is that it is too-easy a down-sell. You are a consultant, and you are trying to recruit new consultants, and a potential consultant is waffling and you decide to take the easy route and just convince her to become a PC – 10% off, free-shipping, 60-day money back guarantee. That is a pretty easy sale."

The Atlanta Project

Based on the dissatisfaction with the bonus-driven culture, Arazi-Gamliel and the R+F executive team wrestled with the idea of dramatically shifting directions and creating a selling environment that was motivational and sustaining with less emphasis on short-term cash bonuses. Bush commented, "We needed to put more emphasis on the intrinsic value of the work, so that our consultants appreciated what they were doing – the mastery, the passion, and the autonomy as well as the long-term potential associated with the opportunity – rather than doing it simply for short

term dollars. Arazi-Gamliel concurred, “We needed to create an environment where people have the tools to be self-motivated and realize intrinsic rewards rather than driving them through bonuses.”

Accordingly, Rodan and Bush asked Arazi-Gamliel to develop a program that would build on the firm’s existing training initiatives to launch or grow local markets, particularly through increased consultant sponsorship and retention. The R+F team identified Atlanta as the first market it wanted to target (and hence the term for this initiative). Arazi-Gamliel designed a set of three, one-day interactive training sessions that would be spaced about a month apart from the others, and focused on the following objectives:

- **Improve inviting skills:** Participants would reflect on why they joined R+F. They would also attend workshops on improving “inviting” skills. Arazi-Gamliel elaborated on his thinking:

It’s a cycle that starts with *your* “Why?” Why did *you* join the business? What is *your* vision of yourself in the future? This builds a connection between behavior and a higher purpose. Next, it’s a matter of practicing that behavior. Inviting skills are key to being successful in our business. You have to first understand what it takes to actively invite people and enroll them into the business. Next, if you systematically follow those behaviors, there’s a very good chance you will be successful. The key is to become committed to a cycle of success.

Bush expanded:

We will teach consultants to commit a new recruit to action by scheduling their launch event the moment they sign up. People will work in teams to generate a social context around the difficult behaviors of making calls and doing “lifestyle” prospecting, or what we call “social selling.” We need to get people out of their comfort zone—that is a major objective of the program.

- **Critical practices:** Participants would work in groups to focus on critical practices—time management, setting goals, following up on results, sharing best practices for inviting new consultants, and capitalizing on the R+F compensation plan. Arazi-Gamliel explained:

One of the challenges individuals in our business face is the lack of boundaries. We will teach people to create their own workspace—whether it’s inside the home or out—so they can say, “This is my business time and my business space.” Being a R+F consultant requires a tremendous amount of discipline so we will help people create structure to their workweek and provide a system to follow.

One of the key exercises will be practicing the skills we’ve worked on - how to talk to people and invite them to join the organization. We’ll give consultants 40 minutes to go out—into the hotel, out on the street, it doesn’t matter. They need to pick up the phone and invite people to the next meeting that’s being held two days later.

- **Presentation skills:** Workshops would focus on the key components of presenting the story to potential recruits, presenting to team members and orchestrating team meetings, and how to respond to hearing “No” in the business. Arazi-Gamliel added:

Imagine being in a room with a few hundred people who are all excited about R+F, seeing some leaders emerge, and hearing success stories of others. To me, it’s not about the money. It’s about people discovering themselves and finding power and self-actualization in ways that will impact their lives from that point on.

As the team considered the project, Arazai-Gamliel articulated some of the hopes—and assumptions—that underpinned his enthusiasm for the program:

Let's assume we manage to attract 30% of the 675 consultants in Atlanta to the program. For our 3-module program, we'll charge them \$30 per module—in part to ensure their commitment, and in part to cover our gross fixed costs of \$30,000. I assume that our success rate will translate into a tripling of our baseline recruitment level—i.e., a tripling of our baseline recruitment rate of .05 [new consultants per existing consultant per month], or an incremental .10, for the 3-month period during which we're running the program.

Of course, our biggest hope is not so much the improvement we see during the program, but the more lasting impact. I'm hoping we can get that incremental recruitment rate to remain at half what it was during the program—so an incremental .05—for nine months following the end of the program. And, I believe that the new consultants we do recruit will themselves be more effective sales consultants—that they will sell one more PC than the typical new consultant. Finally, I'd like to think that we'd get some other benefits. First, I believe that all consultants who participate—regardless of whether they boost their recruiting activity or not—will become more motivated, effective salespeople themselves. I assume that, on average, they will be able to sign up one additional preferred customer.

* * *

As he flew back to San Francisco, Rodan considered the firm's next steps:

We do need to drive product sales and consultant recruitment more effectively, and continuing to rely on more and bigger bonus programs seems like an unending treadmill. I am not sure if we should offer such program to the entire consultant base. Should we offer this program to only those consultants who have shown their commitment to the business through consistent growth in revenues? Is this program about making stars out of our A players, or is it about improving the effectiveness of our Bs, or should it be aimed at the Cs and the at-risk pool of consultants that have never built any traction in the business?

On the other hand, we've been quite successful to date, and I hate to abandon what has worked reasonably well in favor of a model we've yet to prove. Conventional wisdom in this kind of business is that leadership emerges from the field and that "top-down" development is not welcome. We are still a young company—as the field leadership develops and emerges, they may well be able to drive the results we want.

The firm's VP of sales was not in favor of the plan:

The company is growing—we just need some more time to refine our incentives and let the right field leaders emerge. This plan takes us away from our lean approach to growing our sales force. This new program will pull resources and energy away from the rest of the country and focus it all on Atlanta. Rolling this out nationally will be very distracting and suck up resources and management time. We need to be realistic and focus on initiatives that we can apply across the entire US.

Exhibit 1 Financials – R+F Revenue by Type, and Commission Payout

Year/Month	Consultant	Preferred Customer	Retail	Total Revenue	Total Payout
January 2009	\$134,146.00	\$118,236.40	\$53,571.40	\$305,953.80	\$99,164.93
February 2009	\$204,052.50	\$122,379.60	\$46,298.00	\$372,730.10	\$121,475.15
March 2009	\$293,725.50	\$133,746.40	\$63,022.00	\$490,493.90	\$171,233.01
April 2009	\$395,143.50	\$137,033.60	\$63,761.00	\$595,938.10	\$217,101.65
May 2009	\$442,506.50	\$159,430.80	\$66,181.40	\$668,118.70	\$261,479.50
June 2009	\$439,114.00	\$159,486.20	\$66,080.00	\$664,680.20	\$333,249.41
July 2009	\$633,537.50	\$185,003.60	\$69,726.40	\$888,267.50	\$401,658.24
August 2009	\$659,575.70	\$194,291.60	\$73,555.00	\$927,422.30	\$396,344.80
September 2009	\$789,029.00	\$231,347.20	\$88,933.00	\$1,109,309.20	\$484,997.90
October 2009	\$986,139.45	\$328,171.20	\$93,290.00	\$1,407,600.65	\$501,224.90
November 2009	\$935,009.95	\$376,650.05	\$111,064.10	\$1,422,724.10	\$532,193.75
December 2009	\$759,065.00	\$401,389.20	\$110,971.00	\$1,271,425.20	\$450,517.07
	\$6,671,044.60	\$2,547,165.85	\$906,453.30	\$10,124,663.75	\$3,970,640.31
					Payout = 39%
January 2010	\$799,081.00	\$483,985.20	\$115,007.00	\$1,398,073.20	\$543,730.18
February 2010	\$774,283.00	\$518,545.15	\$110,077.00	\$1,402,905.15	\$525,747.62
March 2010	\$962,075.30	\$608,559.05	\$128,555.85	\$1,699,190.20	\$638,922.07
April 2010	\$799,112.95	\$686,760.25	\$117,731.00	\$1,603,604.20	\$665,107.42
May 2010	\$850,144.70	\$747,568.90	\$116,728.00	\$1,714,441.60	\$669,913.26
June 2010	\$806,528.45	\$808,733.40	\$113,698.00	\$1,728,959.85	\$703,073.28
July 2010	\$903,350.25	\$862,870.90	\$117,704.90	\$1,883,926.05	\$769,568.80
	\$5,894,575.65	\$4,717,022.85	\$819,501.75	\$11,431,100.25	\$4,516,062.64
					Payout = 40%

Purchased by: Kristin Korn KRISTINKORN@ME.COM on March 14, 2014

Source: Company documents.

Exhibit 2 Management Bios**AMNON RODAN, CHAIRMAN**

With more than 25 years of business development and marketing experience, Amnon is responsible for the vision and direction of the R+F business. Under his leadership, R+F became a leading dermatologist brand in top tier department stores. Amnon was also instrumental in the unprecedented decision to move the company's products out of the traditional retail channel in favor of direct selling. Prior to joining R+F, Amnon was the founder of multiple, successful technology development companies and a highly sought after business strategy consultant.

Amnon received a Master's in Business Administration from Harvard Business School and a Bachelor of Science in Economics from Loyola Marymount, graduating Magna Cum Laude.

LORI BUSH, PRESIDENT AND CHIEF EXECUTIVE OFFICER

With more than 25 years' experience in the consumer and health care products industries, Lori was instrumental in overseeing the brand's entrance into the direct selling arena and is responsible for the management and guidance of the R+F business. Lori co-authored National Bestseller *Write Your Skin a Prescription for Change* with Dr. Rodan and Dr. Fields. A seasoned direct selling leader, Lori previously served as President of Nu Skin International and has held several leadership positions within the skincare franchise of Johnson & Johnson Consumer Products Companies including Worldwide Executive Director Skin Care Ventures and Vice President of Professional Marketing at Neutrogena.

Lori received a Master's in Business Administration in Marketing from Temple University and a Bachelor of Science in Medical Technology from The Ohio State University.

ORAN ARAZI-GAMLIEL, EXECUTIVE VICE PRESIDENT OF GLOBAL STRATEGY AND FIELD DEVELOPMENT

Oran brings over 17 years of successful, hands-on business development experience as a senior level executive in the global wellness and direct selling arenas. At R+F, Oran will lead the company in creating a global footprint as the direct selling business ownership opportunity in the clinical skincare arena. Oran's global track record spans the United States, Europe, Russia, Israel and South Africa, where his experience included restructuring and building direct selling operations from scratch. Most recently Oran served as Founder and Managing Director of Talor04, a global business development firm that utilized its exclusive industry expertise and global networks to develop and execute robust business strategies. Clients included global firms such as Bain & Company, Avon and NuSkin. Prior to that, Oran served Chairman of the Dietary Food Supplement Division of the Israeli Chamber of Commerce and as Chairman of the Direct Selling Association of Israel.

Oran holds an MBA in International Business and is an Oxford University Certified Scenario Specialist and a certified mediator.

COURTNEY WINGET, CHIEF MARKETING OFFICER

With well over a decade of experience in personal care direct selling, Courtney specializes in marketing strategy and product development. Prior to R+F, Courtney was the Director of Product Marketing for Nu Skin International where she was responsible for the strategic development and marketing of the company's \$500 million personal care business worldwide. At R+F, Courtney is responsible for the care and nurturing of the R+F brand, including the strategic development of marketing plans and programs and guiding the company's product portfolio to support R+F Consultants across the country.

Courtney holds a Bachelor of Arts in English from Brigham Young University.

Source: Company documents.

Exhibit 3 U.S. Beauty Industry Segments (\$ in billions)

	2009 Actual	2010 Forecast	Growth (%)
Skincare	9.9	10.1	2.00
Haircare	9.9	10.0	-1.00
Color Cosmetics	9.0	9.4	3.80
Fragrance	5.5	5.6	1.70
Bath & Shower	5.4	5.3	-2.00
Total	39.8	40.4	1.02

Source: Demeter Group, "Beauty Industry 2012 Outlook," Company.

Exhibit 4 Direct Sales Statistics**Direct Marketing - U.S. Retail Sales (\$ billions)**

2005	\$30.47
2006	\$32.18
2007	\$30.80
2008	\$29.60
2009	\$28.33

U.S. Direct Sellers (millions)

2005	14.1
2006	15.2
2007	15
2008	15.1
2009	16.1

Percentage of Sales by Major Product Group

Home & family care/home durables	23.9
Wellness	22.8
Personal care	21.3
Services/other	18.4
Leisure/educational	3.3

Percent of Sales by Sales Strategy

Individual/person-to-person	64.3
Party plan/group	25.4
Auto shipments	9.8
Other	0.5

Percent of Sales, Direct Sellers and Firms by Type of Company Compensation Plan**Percent of Sales by Location/Medium**

Face-to-face selling:	78.1
In the home	73.3
At a temporary location	2.3
In the workplace	2.2
Other locations	0.3
Remote selling by direct sellers:	12.1
Internet	7.3
Phone	4.6
Other	0.2
Remote selling by companies	6
Auto shipments	3.8

Multilevel:

Sales	97.1
Sellers	99.6
Firms	94.2

Single level:

Sales	2.9
Sellers	0.4
Firms	5.9

Percentage of Direct Sellers by Hours Worked

Full time	7.5
Part time	92.5

Percent of Direct Sellers by Gender

Female	82.4
Male	17.6

Source: Direct Selling Association Fact Sheet, "US Direct Selling in 2010," Amy M. Robinson, www.dsa.org/research/industry-statistics.

Exhibit 5 Top 10 Direct Selling Companies

Name	Country	Sales (\$billion)	Products	Number of Consultants/ Distributors
Avon Products	USA	\$10.3	cosmetics, fragrance, toiletries	6.2 million
Amway	USA	\$8.4	cosmetics, nutritional, household	3.0 million
Vorwerk & Co.	Germany	\$3.6	household appliances, cosmetics	530,000
Mary Kay	USA	\$2.5	skincare, cosmetics	20 million
Natura Cosméticos	Brazil	\$2.4	cosmetics, fragrances	10 million
Herbalife Ltd.	USA	\$2.3	nutritional supplements	20 million
Primerica	USA	\$2.2	financial products and services	100,000
Tupperware	USA	\$2.1	food storage	2.4 million
Oriflame Kosmetiek B.V.	Sweden	\$1.8	cosmetics	N/A

Source: *Direct Selling News*, "2009 DSN Global 100," by Katherine Ponder, June 1, 2010.

Exhibit 6 R+F Product Line***Anti-Age Regimen Product Information***

Decide today how you are going to look tomorrow. Does the never-ending pursuit of the “latest and greatest” wrinkle-fighting creams and “innovative” ingredients leave you with nothing but jars of hope filled with empty promises? Try a steady diet of intelligent skincare. The ANTI-AGE Regimen is a comprehensive skincare system that layers cosmetic ingredients and proven peptide technology to visibly firm skin and reduce the appearance of lines, wrinkles and enlarged pores. The ANTI-AGE Regimen features four full-size products: Daily Cleansing Mask 125 mL/4.2 Fl.Oz.; Pore Minimizing Toner 125 mL/4.2 Fl.Oz.; Triple Defense Treatment SPF 30 30 mL/1.0 Fl.Oz.; and Overnight Restorative Cream 30 mL/1.0 Fl.Oz.

Reverse Regimen Product Information

It’s not what you see ... It’s what you don’t see. Exposure to the sun and the environment can leave you with less-than-youthful skin. Erase the signs of premature aging, including brown spots, dullness, and sun damage with REVERSE. REVERSE Regimen exfoliates, lightens, brightens and protects your skin for a more even tone and texture. Recognized on Allure Magazine’s A List, the REVERSE Regimen features 4 full-size products: Deep Exfoliating Wash 125 mL/4.2 Fl.Oz.; Skin Lightening Toner 125 mL/4.2 Fl.Oz.; Skin Lightening Treatment 50 mL/1.7 Fl.Oz.; and REVERSE Broad Spectrum SPF 50+ Sunscreen 50 mL/1.7 Fl.Oz.

Soothe Regimen Product Information

Where do you turn when your face can’t take it anymore? Calm the flush-blush reaction of a hyper-sensitive complexion with SOOTHE. Clinically proven to reduce redness and irritation in as little as 5 minutes, SOOTHE shields against the biological and environmental aggressors that can trigger inflammation, helps fortify skin’s natural moisture barrier, calms visible redness, and reduces irritation so that you can take comfort in having a healthy-looking complexion every day. The SOOTHE Regimen features 4 full-size products: Gentle Cream Wash 125 mL/4.2 Fl.Oz.; Sensitive Skin Treatment 50 mL/1.7 Fl.Oz.; Moisture Replenishing Cream 50 mL/1.7 Fl.Oz.; and Mineral Sunscreen SPF 30 50 mL/1.7 Fl.Oz.

Unblemish Regimen Product Information

Breakouts? Unpredictable? Unreasonable? Unfair? Take control with our UNBLEMISH Regimen. Clinically proven to combat the entire acne cycle, this sophisticated regimen helps unclog pores, clears breakouts and calms your complexion to keep pimples, blackheads and post-acne marks from making an unwelcome appearance on your face – and in your life.

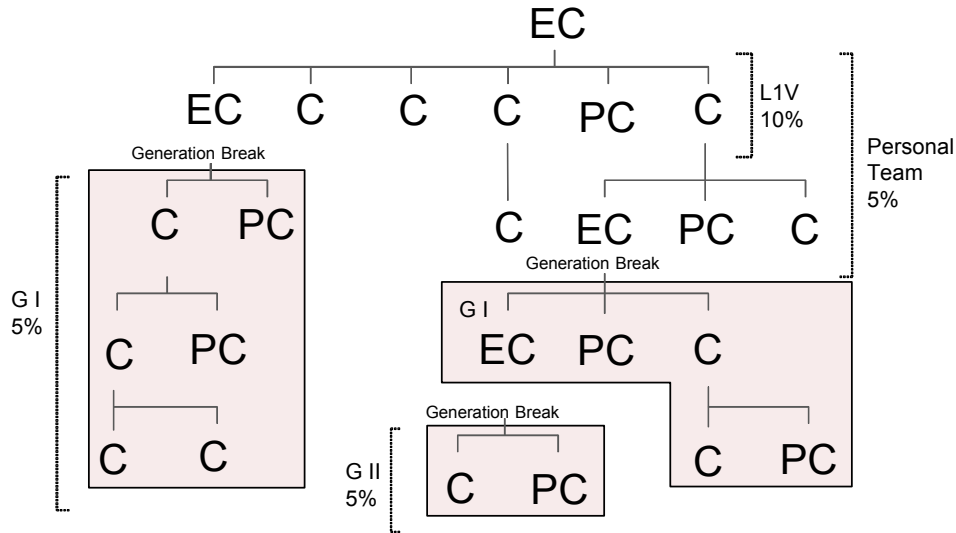
Since many acne sufferers have post-inflammatory hyperpigmentation (PIH), the remnant red/brown marks following a healed blemish, we offer UNBLEMISH Spot Fading Toner. However, if you are one of the lucky few who does not experience PIH, use our UNBLEMISH Clarifying Toner as an alternative.

The UNBLEMISH Regimen features 4 full-size products: Acne Treatment Sulfur Wash 125 mL/4.2 Fl.Oz.; Spot Fading Toner 125 mL/4.2 Fl.Oz. OR Clarifying Toner 125 mL/4.2 Fl.Oz.; Dual Intensive Acne Treatment 2 x 15 mL/.5 Fl

Source: Company documents.

Exhibit 7 R+F Comp Plan Overview

Schematic of Legs and Generations in Comp Plan



Note that what makes a generation is a set of consultants/PCs underneath an Executive Consultant.

Key:

- C = Consultant
- EC = Executive Consultant
- PC = Preferred Customer

Theoretical maximum payout scenario: Assume original \$300 PC purchase = \$264 sales volume

R+F COMP PLAN – THEORETICAL MAXIMUM PAYOUT BY R+F ON A SALE				
Layer	Sales Volume	% Earned	\$	Description
Generation VI	\$264	2.50%	\$ 6.60	Gen VI overrides
Generation V	\$264	5%	\$ 13.20	Gen V overrides
Generation IV	\$264	5%	\$ 13.20	Gen IV overrides
Generation III	\$264	5%	\$ 13.20	Gen III overrides
Generation II	\$264	5%	\$ 13.20	Gen II overrides
Generation I	\$264	5%	\$ 13.20	Gen I overrides
Personal Team	\$264	5%	\$ 13.20	Personal Team Commissions
	\$264	10%	<u>\$ 26.40</u>	L1 Consultant Commissions
			\$112.20	

Note this ignores the \$36 of retail profit earned by the consultant on the sale.

Source: Company documents.

Exhibit 8 Simple Virality Example

Assumption: Each consultant adds 2 consultants during each period and all continue to add at the same rate in each successive period.

Period #	# Consultants at Beginning of Period	# Consultants Added During Period	# Consultants at End of Period
1	1	2	3
2	3	6	9
3	9	18	27
4	27	54	81
5	81	162	243
6	243	486	729
7	729	1458	2187
8	2,187	4,374	6,561

Source: Company documents.

Exhibit 9 Existing Bonus/Incentive Plans

ARRIVE AT V

... FOUR MONTHS TO MORE THAN \$10,000 IN BONUS!

The Rodan + Fields® Arrive at V Bonus rewards you for developing new Level II Executive Leaders in your organization. Meet two qualifications to reap the benefits of this limited time promotion and establish a foundation for long-term earning potential.

EARN \$10,000

Qualification 1:
Generate Commissionable Volume (CV) from a pair of new Consultants who, on the day they enroll:

- Purchase 600 SV
- Commit to CRP

Qualification 2:
During your promotion period*, generate new CV from eight Personally Sponsored Level II Executive Consultants.

```

graph TD
    YOU((YOU)) --- LIEC1((LIEC))
    YOU --- LIEC2((LIEC))
    YOU --- LIEC3((LIEC))
    YOU --- LIEC4((LIEC))
    YOU --- LIEC5((LIEC))
    YOU --- LIEC6((LIEC))
    YOU --- LIEC7((LIEC))
    YOU --- LIEC8((LIEC))
          
```

QUALIFY FOR AN ADDITIONAL \$500 EVERY 30 DAYS WITH PATH II CONVENTION

Our **Path II Convention** bonus is designed to work in tandem with **ARRIVE AT V** for an immediate return on your efforts. From May 1, 2010 to September 30, 2010:

Qualify for an additional \$250 every time you meet Qualification 1 for **ARRIVE AT V**

Generate new CV from four Preferred Customers for an additional \$250

There is no limit to how many times you can earn the **Path II Convention** bonus. You set the pace.

With eight Level II Executive legs you will be a Level V Executive Consultant. Set your goals even higher to be an Elite V, our highest recognized title. Ask your Sponsor for more information.

Please read Arrive at V and Path II Convention Terms and Conditions for complete program details.

*For Consultants with an enrollment date prior to May 1, 2010, the promotion period is May 1, 2010 – August 31, 2010. For Consultants with an enrollment date on or between May 1 and August 31, 2010, the promotion period begins on the date of enrollment and ends four full commission periods after enrollment.

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Exhibit 9 (continued)

SUMMER HEATS UP AT RODAN + FIELDS® WITH CONVENTION CASH

Earn big in August and receive cash to pay for your trip to New Orleans this fall for our Empowerment in Motion 2010 Convention...

With Convention Cash you can earn everything you need to travel in comfort and style in **just one month.**

This August, you will qualify for Convention Cash when you generate new CV by sponsoring a new Consultant who enrolls with 300 SV and a commitment to CRP. The more new Consultants you find, the more cash you earn. Convention Cash is **IN ADDITION** to all Path II Convention earnings so your bonus potential is exponential.*

NEW CONSULTANT SPECIAL
 Enroll this month and save \$50 on Convention Registration in August

Number of New Consultants	Convention Cash Bonus	Combined with Path II Convention you can earn up to**
	\$50	\$100
	\$150	\$400
	\$300	\$600
	\$500	\$1000
	\$750	\$1300
	\$1050	\$1800
	\$1500	\$2300
	\$2000	\$3000
	\$3000	\$4050
	\$5000	\$6250

*The Convention Cash Bonus will be included in your September commission check. Please read Convention Cash Terms and Conditions in the Pulse Business Development Library for full details. **Potential bonus earnings from Path II Convention assume every new Consultant enrolls with 600 SV. Please read Path II Convention Terms and Conditions in the Pulse Business Development Library for full details.



Exhibit 9 (continued)



GET ON
THE PATH II CONVENTION
 WITH YOUR BIG BUSINESS LAUNCH
 MAY 2010 - SEPTEMBER 2010

Leverage our Big Business Launch duplication model to qualify* for \$1,000 in bonus money in your first full month with Rodan + Fields®.

<p>AT YOUR BIG BUSINESS LAUNCH:</p> <p>Generate new Commissionable Volume (CV) from two Consultants with at least 600 SV who commit to CRP for a \$250 bonus.**</p> <p>Generate new CV from four Preferred Customers for a \$250 bonus.</p> <p>There is no limit to how many times you can earn the Path II Convention bonus.</p>	<p>DUPLICATE FOR INCREASED REWARDS:</p> <p>Help your new Consultants duplicate this behavior and become a Level II Executive Consultant for a \$500 bonus.**</p>
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Please read Path II Convention Terms and Conditions for complete program details.

*To be eligible for the Path II Convention Bonus you must be a Consultant in good standing with Rodan + Fields and subscribed to CRP.

**The payment schedule for these bonuses varies so please refer to Path II Convention Terms and Conditions for complete payment schedule details.

**RODAN + FIELDS®
 DERMATOLOGISTS**

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Source: Company documents.

Endnotes

¹ Adapted by casewriter from William Sahlman and Liz Kind, "MD Beauty, Inc.," HBS Case No. 9-806-045 (Boston: Harvard Business School Publishing, 2005), pp. 8-9.

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⁴ "The Story of Proactiv Solution," Audio Podcast by Dr. Katie Rodan for the Entrepreneurial Thought Leader Speaker Series at Stanford University's Entrepreneurship Center, April 19, 2006, available at corner.stanford.edu/authorMaterialInfo.html?mid=1550, accessed June 21, 2012.

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⁶ "WFDA Global Selling Statistics 2010," World Federation of Direct Selling Associations website, available at http://www.wfda.org/statistics/index.cfm?fa=display_stats&number=1, accessed July 12, 2012.

⁷ "Direct Selling by the Numbers Calendar Year 2009."

⁸ "The Direct Selling Salesforce in 2008: DSA's National Salesforce Survey," *Direct Selling Association 2008*, p. 12.

⁹ Direct Selling Association, www.directselling411.com.

¹⁰ *Ibid.*

¹¹ Direct Selling by the Numbers Calendar Year 2009."

¹² According to the Grimes & Reese, P.L.L.C. online law library, "Essentially, if a marketing plan compensates participants for *sales* by their "enrollees," "recruits," and/or their downline enrollees and recruits, that plan is multilevel. If a program compensates participants, directly or indirectly, merely for the introduction or enrolment of other participants into the program, it is a pyramid." "Legal Principles of Multilevel Marketing," Grimes & Reese, P.L.L.C., available at <http://www.mlmlaw.com/library/guides/Primer.htm>, accessed June 20, 2012.