The strategic advantages of direct selling

by Kent Grayson and Richard Berry

Direct selling is the use of salespeople to sell and supply goods to private individuals, usually in their home or workplace. Although one of the oldest distribution methods, it has been overshadowed by other approaches in most modern economies.

The growth of mass manufacturing and brand advertising in the early 20th century, for example, meant that many consumer-product organizations turned to mass distribution systems as a more efficient means of reaching the market. More recently, the mass marketing of products via catalogs, direct mail and telephone (sometimes called "direct marketing") has been facilitated by the development of advanced database marketing techniques.

But neither retail distribution nor direct marketing is without problems. For example, the power of retail chains has grown to the point where they can present considerable barriers even to well-established brands. And consumers – who every day are bombarded by a growing number of advertising messages – are becoming immune to the sales pitches they face when watching television, traveling to work or opening their post.

Direct selling is an approach to distribution that is not as vulnerable to some of the problems associated with standard channels. At least this has been the experience of successful direct-selling companies such as Amway, Herbalife, Mary Kay, Betterware, Weekenders, Oriflame and Kleeneze. Today, companies such as these use direct selling to move more than $18bn worth of consumer products in the US and more than $10bn in the European Union every year. These figures have encouraged a number of managers to consider direct selling as a primary or secondary channel of distribution for their products.

One-to-one or one-to-many?

One way to distinguish between direct-selling organizations is to see whether their salespeople tend to engage in one-to-many or one-to-one selling. With one-to-many direct selling ("party plan" selling), several customers and potential customers are invited to group product presentations. Those who attend are often friends and acquaintances who are interested not only in the products being offered but also in the socializing that occurs. These presentations are often made in a home environment and have a casual, festive atmosphere. In contrast, one-to-one direct salespeople present their products not to groups of customers but to individuals or couples. As with one-to-many selling, these presentations often occur in a home environment, especially if the salesperson seeks customers by going "door to door." One-to-one salespeople also arrange individual appointments, which may occur in any number of locations, including restaurants, pubs or workplaces.

Direct-selling companies tend to emphasize one type of selling over another. This is often dictated by the type of product being sold. For example, one-to-many selling is obviously a good forum for products that are interesting or fun to demonstrate, such as cosmetics and skin-care products. Once one or two people decide to make a purchase at a party, others are likely to follow.

More pedestrian items, such as household products, tend to be sold via one-to-one contacts, where products are displayed via a catalog rather than a demonstration. One-to-one selling also tends to be more appropriate for more expensive items such as vacuum cleaners and water filters. This is because customers often require more individualized sales pitches before making a larger purchase.

The salesperson's skills also play a role in the type of selling that occurs. One person may be particularly good at individualizing a sales pitch and may therefore prefer one-to-one sales encounters. Another may have excellent demonstration skills and may therefore initiate home party sales events – even for products that other salespeople find difficult to demonstrate.

Single-level or multi-level?

Another way in which direct-selling organizations can be distinguished from one another is by the way in which the company's management and sales supervision are organized. Some companies – "single-level" sales organizations – have one or two levels of managers (for example, a vice president of sales and regional sales managers) whose responsibilities include the recruitment, training and supervision of salespeople. Single-level direct-sales companies operate like many standard sales organizations because their respective organizational structures are similar. In contrast, "multi-level" direct-sales organizations depend on their local salespeople to recruit, train and supervise the sales force. Salespeople are motivated to do so because they earn commissions on the sales of anyone they recruit, and on the products sold by their recruits' recruits, and so on. Companies that depend on their salespeople to recruit and train are called "network marketing" or "multi-level marketing" organizations because their salespeople benefit from the number of productive sales levels they build.

Because of this, network marketing salespeople generally must be good at selling not only the benefits of a product line but also the advantages of building a sales business using the line. The most successful network marketers must also have good training and sales management skills. Although individuals in single-level organizations may on occasion be rewarded for recruiting others, they are not rewarded for the activities of their recruits' recruits, their recruits' recruits' recruits, and so on.

The manufacturer's view

Every marketing tool has pros and cons, and direct selling is no different. Its strategic advantages depend on the organization's goals and the strengths and weaknesses of its human resources.

There are three key issues that a consumer product manufacturer (or service provider) should consider when gauging the strategic opportunities of direct selling.

Initiating the sale

Consumers today are becoming more skeptical of advertising messages, in part because they are inundated with them every day. Consumer researchers have found that even children know that advertisements should be treated with a degree of skepticism. In contrast, research has also shown that face-to-face and word-of-mouth communication is often a more credible source of product information – especially when it comes from someone already known by the consumer.

In both single- and multi-level organizations, customers are strongly encouraged to tell their friends about the company's products or services. In so doing, direct-selling organizations can in many ways sidestep the resistance that dogs other forms of promotion and distribution.

However, not everyone is comfortable when social relationships are used as a basis for building commercial relationships. Some view this as taking advantage of friendships or tainting a personal relationship with a profit motive. In part because of this, direct selling is seen by some customers as an unwelcome personal intrusion.

A recent study by Wirthlin Worldwide showed that 42 per cent of the US public have a positive attitude towards buying from a direct selling organization. Half of those people bought from a direct seller who was previously known to them. Those with negative views – mainly those without personal exposure to direct selling – expressed concern about being put under pressure to buy. To counteract this potential resistance, direct salespeople often take an approach to selling that is different from most other salespeople. In fact, many direct salespeople would prefer not to be called "salespeople." Instead, they see themselves as product enthusiasts who are simply sharing the benefits of a product with friends, just as they might recommend a good book or film.

Building consumer relationships

As evidenced by the explosive growth in loyalty programs over the past decade, marketing practitioners have been paying greater and greater attention to building long-term relationships with consumers. Besides reduced selling costs, this gives a company the opportunity to learn more about individual consumers and therefore to tailor market offerings to their needs.

However, as emphasized recently by Susan Fournier, Susan Dobsha and David Glen Mick in the *Harvard Business Review* (January/February 1998), many companies do not truly understand consumers as individuals and do not truly tailor their market offerings to each individual consumer. Relationship marketing is not simply a matter of using a consumer's name in a direct-mail letter and remembering his or her birthday. Instead, it requires a deep understanding of the consumer and an ability to adapt the market offering to suit his or her needs.

Direct selling offers companies the opportunity to develop true relationships. Unlike television commercials and direct-mail packages, individual salespeople can interact with consumers, which means hearing and responding to their needs and desires. They are also in a good position to see the same customers time and again. This combination of interactivity and repeated encounters gives direct salespeople the ability to implement relationship marketing in spirit, not just in name. In a recent survey of network marketing salespeople implemented by London Business School and the UK's Direct Selling Association, a strong link was found between the strength of a salesperson's personal relationships and his or her success as a salesperson.

Unfortunately, staff turnover in direct selling is high (although not necessarily higher than some standard retail environments) and when people leave they often take with them the relationships they had with their customers. Many companies counteract this by using database technology, not only to support their salespeople but also to provide a back-up sales contact for customers whose salesperson has left the business.

Power and control over the distribution channel

As consumer-product manufacturers well know, retailers have grown dramatically in size and power over the past decade. Many retail chains are attractive brands in their own right, with sophisticated approaches to marketing and with their own ranges of private label products or services. Now it is the manufacturers who must be willing to make concessions – such as trade discounts – for the privilege of being made available in popular outlets. In fact, many small consumer-product companies cannot meet the high-volume demand at these outlets and therefore cannot use them.

Powerful retailers will often decline the opportunity to sell a new product or brand because they can earn greater profits using their space to sell more established brands. To satisfy retailers that a product will be popular with consumers, companies often need to make a commitment to invest heavily in advertising. Many manufacturers are still asked to pay "slotting fees" to retailers, which are payments for guaranteed shelf space for a particular product. It is easy to see why many organizations – particularly start-up companies – do not have the funding, capacity or volume to warrant attention from major retailers. Direct selling is one way in which companies can circumvent the costs and barriers associated with distributing through these organizations.

When compared with managing relationships with retailers, the management of a direct-selling channel raises rather different issues of power and control. This is primarily because the scope of direct-sales management is in many ways much larger than that of retail sales management. A company that needs to influence a force of hundreds or thousands of salespeople requires different skills and systems from one that has to negotiate with 10 or 20 retail buyers. Furthermore, because retail salespeople work on-site, they can be monitored and managed much more closely than direct salespeople. These challenges are heightened in the case of network marketing direct-selling organizations, whose salespeople are independent contractors rather than formal company employees.

Many direct-sales companies seek to manage their sales forces by developing standardized training programs and holding sales meetings and training seminars. However, there remains a greater potential for variability in how a product is marketed and sold than is the case with other types of sales force. This can be a benefit because it allows direct salespeople to tailor the market offering more closely. But direct-selling companies are more vulnerable to the possibility that salespeople will market products in a way that does not support company strategy or is unethical.

The salesperson's view

Because direct-selling companies depend so heavily on their salespeople, these organizations can be successful only to the extent that becoming a direct salesperson is appealing. Fortunately, this holds considerable attraction for many individuals; in particular, it offers many of the advantages of launching one's own business but without many of the disadvantages.

Low start-up costs

Becoming a direct salesperson requires little or no capital. Because no shop or staff are needed, direct salespeople need not worry about rental or payroll. Furthermore, large inventories are not necessary. A new salesperson will usually buy no more than is required for personal trial and sales demonstrations.

In the UK the direct-selling code of business conduct forbids companies to ask for more than an initial £200 investment. Many start-up kits cost a fraction of that. Most direct-selling companies also provide their salespeople with marketing materials, many of which must be purchased, but generally at a cost that is lower than that of producing materials from scratch.

The drawback is that low start-up costs sometimes mean lower initial commitment. People often join direct-selling organizations not as a career choice but only to earn extra money over the short- or medium-term. Easy entry and low commitment mean easier exit. The result is high industry turnover. In most direct-selling businesses, maintaining a sales force of 1,000 means having to recruit between 1,000 and 1,300 new recruits annually – and for companies selling the most expensive products, that number can rise to 4,000.

Independence

Although teleworking and job sharing offer some flexibility for corporate employees, such progressive employment schemes often allow less personal freedom than direct selling. Direct salespeople can work either part-time or full-time. They can choose to work on days and at times that are most convenient for them. They are not supervised for most or all of their working day.

Direct selling is more likely than other types of business to attract individuals who are not committed to selling full-time. For example, many individuals use direct selling as a way to augment their full-time income. Others – for example, stay-at-home parents – pursue their direct-selling business as a part-time secondary activity.

The LBS/DSA study mentioned earlier found that, on average, network marketing direct salespeople commit only 10 to 15 hours a week to their business. The study also showed that the most successful individuals commit an average of 40 hours a week, but these individuals are relatively rare. These figures suggest that direct-selling companies must recruit many more individuals than other types of selling organization. If every new recruit works only half-time on the business, it will take two new recruits to match the market coverage and sales potential of a full-time salesperson.

Easy access to training and support

Almost by definition, individuals starting their own businesses must be extremely self-motivated. They must seek out their own training and advice. They must learn by trial and error, which means having to live with the consequences of mistakes. And they must often rely only on themselves to keep a positive attitude when times get tough.

While direct salespeople also must be self-motivated, they benefit from systems established by the company whose products they sell. Like those starting a well-known franchise, direct salespeople are often provided with company-sponsored training programs. They are also usually asked (at least at first) to follow pre-established systems for running a successful business, systems that "de-skill" the selling process.

In single-level direct-sales positions, people are formally supervised by a company employee. In multi-level organizations, salespeople must be introduced to the business via a sponsor, and because the sponsor benefits from new recruits' sales, he or she is strongly motivated to supervise, motivate and train them appropriately.

Salespeople – at least those in multi-level organizations – appear to take full advantage of the training opportunities available. In the LBS/DSA study, only 20 per cent of respondents did not attend a training session during the previous year and 40 per cent attended a training session at least every other month. Furthermore, these sessions pay off. The study showed a strong association between number of training hours and salesperson profitability.

Ironically, however, the existence of formalized supervision in direct-selling companies sometimes puts them in an awkward position. Starting any new business is always risky – direct-selling or otherwise.When independent entrepreneurs fail to overcome these risks, they often have no one but themselves to blame.

But in direct selling, an individual's poor performance can be attributed to a sponsor's poor supervision or a company's inadequate training. Thus, the supervisor and the company can become easy targets when a direct-selling business fails, even if the failure was caused by the direct salesperson's inability to sell, self-motivate, organize, or manage time.

Summary

Direct selling can be a lucrative strategy. In the US alone, companies using it shift goods worth over $18bn a year. Here **Kent Grayson** and **Richard Berry** outline some of the organizational options available, together with the potential benefits and drawbacks. Companies can either establish a "single-level" direct sales force, in which company managers supervise salespeople, or a "multi-level" force, in which local salespeople are responsible for recruitment and supervision. In turn, salespeople can adopt a "one-to-one" or a "one-to-many" approach to selling; which is best depends on the product and the individual salesperson. Direct selling offers companies the potential to build close customer relationships, and to exercise direct control over distribution, while salespeople gain some of the benefits associated with setting up a business but at much less risk.