

# DIRECT SALES IN THE CONTEXT OF ROMANIA'S UE INTEGRATION

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*More recently, direct sales business is stimulated by the difficult market conditions. While retailers hardly bear fixed costs such as rent, administrative costs and tend to raise prices, customers fall back to products offered by direct sale. In addition, labour market conditions made more and more Romanians (who were left without incomes) to move towards this system. On the other hand, the direct sales field doesn't concern only those who remained without a job, but rather those who want to round their incomes.*

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## **Introduction**

Direct sales mean selling goods and services directly to consumers through an explanation and/or demonstration, at their home or in the others' house, at work or elsewhere, far from the retail sales location. In many countries the term of "home sale" is used instead of "direct sale".

Usually, direct sales companies operate in two modes:

- From person to person: usually a person who sells makes a presentation to the client and/or his family, after he set an appointment in advance in a certain place and at a certain time.
- Group sales: a customer invites his friends at home, where he makes a presentation for guests.

Direct selling can be defined as a form of communication from one person to another, in which a seller tries to convince potential buyers to buy the products and the services of his firm.<sup>808</sup>

It is therefore a process in which salesmen try to inform and persuade the customers to purchase a product or a service. Direct sales provide the fastest feedback of all promotional activities because of the direct negotiation.

The advantages of direct sales are:<sup>809</sup>

- the ensuring of a more effective individual communication, due to its high flexibility in the communication process, regarding the needs of individual consumers;
- the possibility of minimization of the promotional effort; in most cases sales staff effort materialized in an effective sale of goods or services;
- the ensuring of relevant marketing information for the company management.

Because the direct sales force is the largest expense in the marketing communications it needs proper management; it should have another type of management than other areas of promotion.<sup>810</sup>

Direct sales force management should consider the following requirements:<sup>811</sup>

- sets targets to be achieved in a given period, in a precise, measurable manner: the sales volume, the market share, the obtained profits etc.;
- determines the optimal sales force size and its correction in time;
- organizes sales staff training programs based on various categories of staff;
- motivates the sales staff in order to increase the efficiency of its business;
- controls and evaluates the performance of sales staff.

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<sup>808</sup> Shimp T.A., Lozier M. W. – *"Promotion Management & Marketing Communications"*, Dryden Press, New York, 1996, p. 271.

<sup>809</sup> Adăscăliţei V. – *"Promotional Techniques. Fundamentals"*, "Transilvania" University of Braşov, 1994, p. 98.

<sup>810</sup> Lefter C., Brătucu G. – *"Marketing"*, vol. II, "Transilvania" University of Braşov, 2000, p. 174.

<sup>811</sup> Pride M. V., Ferrell C. O. – *"Marketing"*, 8th Edition, Houghton Mifflin, 1993, p. 550 – 558.

In many Western countries, through this type of sales, unlike the retail, the customer has a period of 7 days called "cool-of period". During this period, he has the opportunity to consider his decision and compare the quality and the price of goods or services provided by the sales people, having the right to cancel this agreement or to return the product purchased. This aspect makes the customer to have a high confidence in the method of direct selling. In addition, by extending the term of "cool off", by establishing the ethical principles that limit the actions of its members and through cooperation and continuous communication with Consumer Associations, direct sales companies protect the customers. Direct Selling is successfully used for many products: cosmetics, tools, home fitness products and dietary supplements, textiles, alcohol, jewelry etc.

Direct sales industry is rapidly growing as the preferred method of sale and purchase.

As a result of global development, in 1978 World Federation of Direct Selling Associations (World Federation of Direct Selling Association) was founded. The headquarter is in Washington DC, USA and its members are Direct Sales Associations from 52 countries representing a total of 1,300 companies worldwide.

Direct Selling is a proven practical method of purchase for millions of consumers worldwide. First, direct sales offers quality and diversified products to consumers while on the other hand they provides an opportunity to earn income for people from all social classes, without distinction of race, gender, religion, education or experience. Most of the people involved in direct selling business deals with only part-time and temporary.

A special study conducted in the U.S.A., to consider direct sales, shows that the 5 reasons to become a direct selling person are:

**Table 1: 5 reasons to become a direct selling person**

I like to test product	90.7%
I'm my own boss and I choose my work program	73.1%
I contribute to family income or I obtain additional income for me	63.7%
The more I work, the more I earn	54.3%
I like to sell	48.5%

Direct sales provide an opportunity of business for the person who sells, on the one hand, and offers quality, value, personal and practical service for the consumer, on the other hand. The practice of direct sales gives the opportunity of an extensive selection providing various products and services to customers, continuously increasing worldwide.

**The evolution of direct sales in Romania in the period 1999 – 2009**

At the end of 1990, after the fall of communist dictatorship, network marketing systems have emerged by entering the local market of individual life insurance agents from Austria (collaborators of Safe Invest Holding), as insurance brokers, in MLM system.

Poor economic conditions, lack of appropriate legislation, the reluctance of people to the responsibility of a business on their own, have greatly hampered the official start of such companies. For 4 to 5 years have entered the market, rather shy, collaborators form Italy, the Netherlands, Austria, Hungary, Germany and the U.S., which tried to build their own networks for various companies (Herbalife, Amway, etc.) distributing cosmetics, cleanliness products, nutrition and health maintenance products. Most of these activities took place at the boundary of law, because none of the supplying companies was registered in Romania.

In 1994 were recorded the first officially MLM companies in Romania (Safe Invest Romania, Romania Saveco, GWC), and several years later also appeared major network marketing companies (Oriflame, California Fitness, Amway, Golden NeoLife Diamonds, Carion, Forever Living Products, AVON, Eurolife etc.). Meanwhile, were set up some local MLM companies, which tried to imitate the success of the those well - known, but without notable results due to lack of capital and management

experience. If in 1998 the number of collaborators was estimated at about 60,000 at the end of 1999 there were approximately 125,000 people directly involved in the system. Only those active persons in the system were taken into account, then MLM distributors.

Currently, more than 10 Network Marketing companies try to develop their market in the context of an economy in full reform, always offering what no other industry in Romania can offer: jobs.

Each collaborator who entered the system had a major opportunity to become master of his own business, to have a secure job and earn money by honest means. Also it has to be noted the media indifference for the promotion of these systems, which can be explained by the ignorance of the truth about Network Marketing and the confusion generated by illegal pyramid selling (as the famous Caritas). If the above information is likely to be inaccurate, this is due to a false understanding of free market competition of the management teams of Network Marketing companies.

The last decade has shown a significant increase of population in Romania who was drawn to the idea of having its own direct sales business. The reason for this dramatic increase is not only the alternative to a job or an additional way of earnings, but the satisfaction of becoming an individual entrepreneur who wins on a profitable activity, in collaboration with partners in its network.

Most of the worldwide suppliers of consumer goods and services, now prefer to present their offer directly to consumers. Precisely this facility is a feature of the direct sales industry, so that over 70 companies are now operating in direct sales and MLM schemes in Romania. In Romania the turnover exceeded 270 million USD in 2007 and the number of the active distributors reached 300,000. These opportunities are designed to be embraced by men, women and families of any social class. One of the advantages of such opportunities is that personal commitment can be partially (outside office hours) or full, being fully flexible in terms of organizing working time. A day, a week or a whole month can be assigned to run an MLM business, according to the wish of every person to earn from the opportunity.

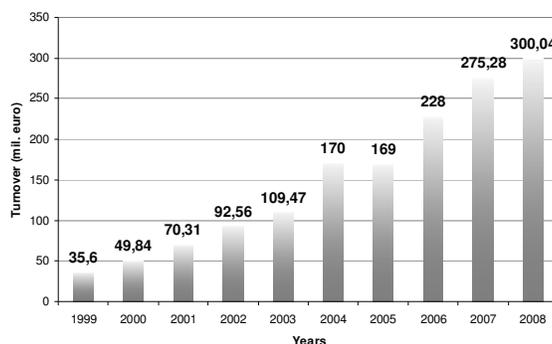
The main statistics on the industry of direct sales and MLM systems in Romania refer to:<sup>812</sup>

- **Turnover** – in 2008 reached the value of € 300,041,307, an increase of 15% compared to 2007 when it reached € 275,285,253. According to the RODSA statistics (The Romanian Direct Selling Association) in 2009, turnover increased by 10% compared to 2008 due to current financial crisis. Cumulative 10 years, from 1999 to 2008, the turnover exceeded EUR 1.496 million.

**Table 2: Turnover in the direct sales industry in Romania in the period 1999 – 2008 (mil. €)**

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>Turnover</b>	35,6	49,84	70,31	92,56	109,47	170	169	228	275, 28	300,04

(Source: <http://www.rodso.ro/rapoarte.htm>)



**Fig. 1. Turnover in the direct sales industry in Romania during 1999 – 2008 (million €)**

(Source: <http://www.rodso.ro/rapoarte.htm>)

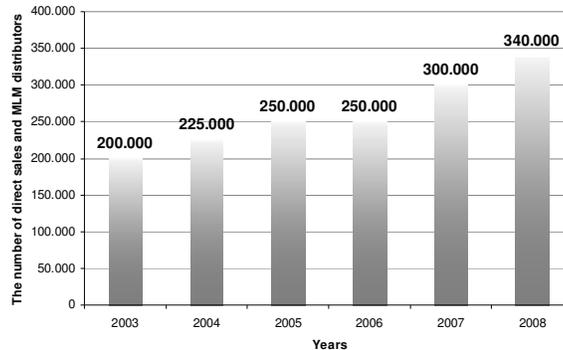
- The structure of **direct sales** and **MLM** distributors in Romania:

<sup>812</sup> <http://www.rodso.ro/rapoarte.htm>

**Table 3: The number of direct sales and MLM distributors in Romania in the period 2003 – 2008**

	2003	2004	2005	2006	2007	2008
<b>The number of direct sales and MLM distributors, of which:</b>	200.000	225.000	250.000	250.000	300.000	340.000
<b>- employees</b>	452	452	590	1.176	1.282	1.107

(Source: <http://www.rodsa.ro/rapoarte.htm>)



**Fig. 2: The number of direct sales and MLM distributors in Romania in the period 2003 – 2008**

(Source: <http://www.rodsa.ro/rapoarte.htm>)

The range of products distributed in the direct sales industry and MLM systems in Romania in 2007:

- 3% – technical products, machinery, books, etc.;
- 9% – life insurance;
- 11% – household goods;
- 37% – cosmetics;
- 40% – nutritional supplements.

The structure of distributors and customers:

- 30% – active distributors;
- 70% – occasional customers and distributors.

**Distributors work:**

- 31% – full – time;
- 69% – in part (outside office – hours).

**Working method:**

- 61% – from person to person;
- 39% – group presentation.

**The gender of the distributors who work on the Internet:**

- female – 40%;
- male – 60%.

**The age structure of distributors:**

- 18 to 30 years: 37%;
- 31 to 40 years: 27%;
- 41 to 50 years: 24%;
- over 50 years: 12%.

**Conclusions:**

Direct selling industry has registered in 11 years of activity a spectacular growth. If in 1999 the total turnover in this sector just passed 35 million in 2009 - the peak year of economic crisis - companies

operating in multi-level-marketing had a total turnover of over 330 million. Between 1999 and 2009, the area has managed to make "the move" of over 1.8 billion euros. For these money work only 1,107 employees the rest of 350,000 being collaborators.

Last year, when the crisis has trampled on the local economy, the direct sales industry grew with 10% compared with 2008, reaching a total turnover that exceeded 330 million. This rising trend has a logical explanation, given that many Romanian have lost their jobs and were forced to look for a way of earnings. For them, the Multi-Level Marketing (MLM) system was a chance to make some revenue. In Romania today, where job hunting has become a real problem, many people had to look for opportunities of earnings. This was enough to increase the number of collaborators, which led to the increase of the turnover. According to data held by RODSA (Romanian Direct Selling Association), today this MLM system has a network of 350,000 direct distributors and more than one million consumers. Three quarters of those involved in this system made gains equal to the monthly minimum wage. There were also people who made performance, gaining \$ 15,000 each month.

The expansion of this type of services on the Romanian market made the major companies in the world to open offices here. If at first were few sellers "from door to door", the products distributed being designed especially for life insurance, now the range has extended, around 70 of such companies working in our country.

Turnover conducted by the industry shows that there is big money spinning: last year, the top three players - Avon, Oriflame and Amway - had total revenues of over 150 million. According to data from RODSA, Avon has managed to achieve in 2008 the performance of a net profit of 18,162,599 euros with only 311 employees, while Amway has reported a profit of 3,434,119 euros, the company's personnel plan showing only 38 work card employees. Ranked in the top three of the earnings achieved in 2008, Oriflame Company had a profit of 3,116,389 euros and a total of 127 workers.

With relatively small initial investment, direct sales companies have growing profits as more consumers turn to vendors for products to increase their income. Moreover, some of them created networks to grow their sales volume and thus increase revenues. There must be made the specification that the money is earned only when they sell products and not promises.

Another reason for the growth of this business is the improvement of legislation. As for Romania, even now the law is unclear, but becoming a European Union member has simplified things somewhat. For example, several years ago were banned the pyramid schemes. This is a good thing, because the MLM companies don't risk anymore to be associated with such practices.

The major problem of companies during the current period is the economic crisis, because it has a negative influence on all activities. The application of innovation in all areas, reducing costs and risks by contracting a franchise or improving the speed and the efficiency through direct sales are the most viable solutions.

The crisis is the forerunner of change.

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5. \*\*\*<http://www.rodso.ro/rapoarte.htm>