AN OVERVIEW OF THE DIRECT SELLING INDUSTRY

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Abstract: *Trade is at the heart of any economic system and, as such, the method through which it is accomplished is of paramount importance. Easily one of the oldest, if not the oldest, method to accomplish this is through the means of direct selling. However, even if it hides behind and apparent simplicity, direct sales remains one of the most important methods of distribution used by companies even to this day. In this paper we attempt to provide an overview of this industry, as it stands at the moment. We accomplish this objective by first presenting the concept, as it has evolved in the past and the shape it has taken in the present. This is followed up by an overview of the industry, at the global level, which is achieved by focusing on the current level of sales achieved annually, the number of employees currently working in this industry and the year on year growth which has been achieved during the past years. A slightly more detailed approach was used when describing the direct selling industry in Germany, due to the fact that it is one of the largest and fastest developing markets in the whole of Europe. The data that we use for this study has been obtained from the annual report published by the World Federation of Direct Selling Associations.*

Keywords: direct selling; statistic indicators; European market

JEL classification: L81

1. Introduction
Direct selling is one of the oldest and most established methods of selling and distributing goods, which appeared almost alongside the development of civilizations. The early roots of direct selling date back to the time when hunter-gatherers began farming and settling down and the first sellers began to wander across Europe, Africa and Asia (Plattner, 1989).
Modern direct selling origins back to the Middle Ages, when hawkers journeyed from town to town advertising their merchandises (Merrilees and Miller, 1999). In the twentieth century, large brands like Hoover and Tupperware were still using direct selling. So why has direct selling never disappeared? Most probably because the advantages of demonstrating a new product in person could not yet be surpassed by any other sales method known up to date.

1.1. Theoretical and Conceptual Frame
The method of bringing goods and services to market and selling them directly to consumers, at a non-fixed point of sale constitutes the mere definition of direct selling (Grayson, 2007; Peterson and Wotruba, 1996). Specifically, the sale of a product or service takes place face-to-face succeeding a real-time demonstration of its features. The demonstration is completed either individually or a larger groups of prospects. In certain conditions, orders can also be placed later based on a individual price agreement or based on a catalog offer. In comparison to other marketing channels, direct selling is formed on personal contact with the customer.

Presently, direct selling signifies a growing market segment, precisely because it offers a foremost cost-effective advantage of marketing products and services without relying on the traditional marketing circuit or an existing retail channel.
Defined as the "face-to-face selling of consumer goods" minus the premises of a fixed retail location, direct selling differentiates greatly from direct marketing. Peterson and Wotruba (1996) describe direct marketing as a causal process through which products are retailed to the consumer using direct mailing, telemarketing and direct response instruments such as radio spots, banners, infomercials and/or television advertising etc. In contrast, direct selling favors individual one-to-one sales presentations rather than an indirect course of selling events.
Crittenden and Crittenden (2004) identify the key distinguishing factor between the two of them as personal focus or face-to-face interactions through which personal relationships with consumers are created. According to Blech (2006) "the direct personal presentation, demonstration, and sale of products and services to consumers, usually in their homes or at their jobs" enables the seller to display wider product expertise and convenience for the prospect (Sanan, 1997).

The importance of the direct non-store retailing approach has increased in the previous years, ranking up within traditional marketing techniques for selling and distributing products and services (Darian, 1987; Granfield and Nicols, 1975). This is signaled also by the significant amount of research generated in the literature.
According to John Naisbitt there are four key stages in the evolution of direct selling:

- pioneer stage (1945-1977) defined by the effective development of American direct selling companies such as Amway or Nutrilite and the foundation of direct selling within Europe and Asia;
- professional stage (1977-1990) indicating not only an accelerated expansion of the sales, but also the employment of particular prevailing strategies for building up networks of suppliers;
- information stage (1990-2000) characterized by the employment of IT controlling tools for supervising the network of distributors and usage of modern techniques for in-home promoting and delivering of products;
- globalization stage (2000-present) which occurs nowadays and it is characterized by an unstable increase of direct selling revenues, mostly due to the sizeable range of products and services and the growing number of direct sellers which are able to penetrate international markets through online media.

In the following sections we will present various statistical indicators that reveal the constant evolution and current status of the direct selling industry worldwide, respectively indicators specific to the European direct selling market.

2. Research Focus and Methodology

This article explores most recent direct selling statistical indicators and aims to provide an integrated overview of the European direct selling market in context with the Global development of the industry. It also means to describe how absorbing such findings may help us better understand and improve economical efforts and rejuvenate businesses on a global scale.
The primary purpose of the paper is to describe general concepts of direct selling and to demonstrate the practical use and advantages of direct selling channels.
The introductory and theoretical parts briefly present research and proof of relevance. The wide-ranging literature review containing representative concepts of the field is carried out in a short and illustrative manner. The third part sketches the global overview of direct selling using data made available by the WFDSA. In the following sections, based on recent indicators and the latest available reports, a summary of the statistical indicators and European market structure of direct selling is framed.

The focal point of the research is on Germany, which represents the European leader for direct selling. Conclusions and opinions of the authors concerning the direct selling industry are summed up in closing section.

3. Global Overview of the Direct Selling Industry

It can be noted that direct selling continues to gain strength as a strategic marketing alternative for many companies across the World. According to WFDSA, in 2014 alone the global industry summed up sales of $182,823 (USD millions), with up to 6.4% increase in 2014. Over a three-year period (2011-2014) the direct selling industry register a 6.4 % growth in sales and total of 99,724,641 direct sellers (WFDSA, 2014).

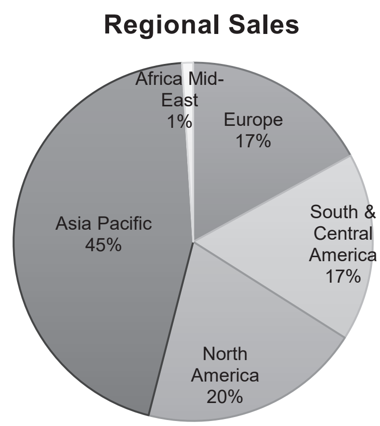


Figure 1: Global direct selling in 2014
Source: WFDSA Global Report, Published May 29, 2015

The most important markets at the moment in terms of sales are those in the Asian region, followed by the North American, South American and European regions, all three having close figures but lagging far behind Asia.

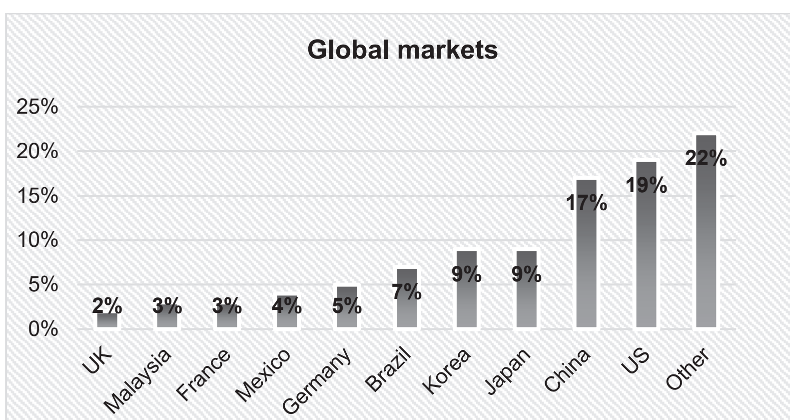


Figure 2: Top direct selling markets in 2014
Source: WFDSA Global Report, Published May 29, 2015

Even though direct selling commenced originally in the USA, several countries are now to be found in the global top 100 direct selling organizations: China, Japan, South Korea, Brazil Germany, Mexico, France, Malaysia, Luxembourg, Peru, Canada, Switzerland, Thailand, Cyprus, India, the UK, and the USA.

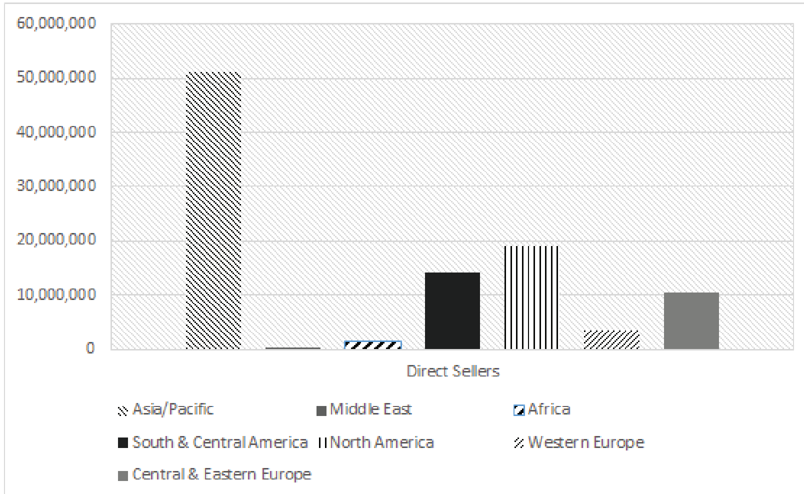


Figure 3: Number of direct sellers
Source: WFDSA Global Report, Published May 29, 2015

In terms of nuber of actual employees, not surprisingly, most of them are in the Asian region, with the other areas taken into consideration lagging far behind them.

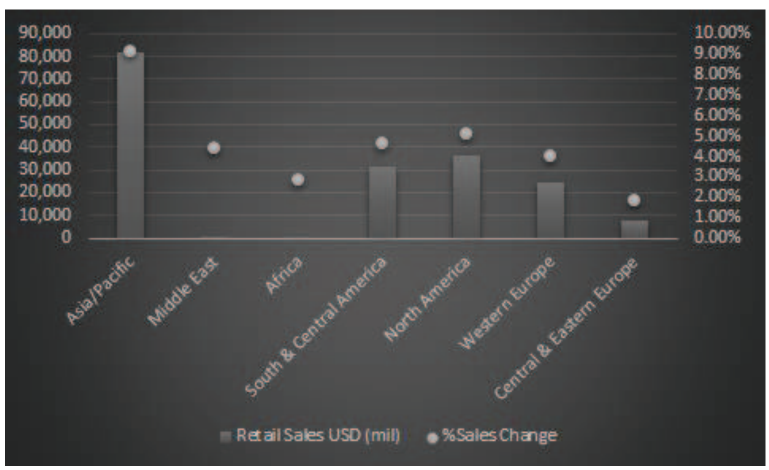


Figure 4: Development of retail direct sales per regions
Source: WFDSA Global Report, Published May 29, 2015

The above figure shows the level of sales and of growth for direct sales across different regions of the globe. Perhaps the most interesting finding of the data is that, even if the Asian region is by far the largest, it is also the one with the highest annual growth. The next regions in terms of growth are, again, North and South America, followed by Western and Eastern Europe.
The lines sold of goods encompass a broad range of products and services. The four dominant product types comprise of 35% cosmetics and personal care, 25% wellness, 14% household produces and 9% fashion and accessories (WFDSA, 2014).
Accordingly, the direct selling industry encloses numerous companies with annual sales

over 1 billion USD, not only American and South American entities like Tupperware Brands Corp., Amway Corp., Avon Products, Nu Skin Enterprises, Inc Herbalife, Mary Kay Inc. Ltd, Natura Cosmeticos SA in Brazil, Belcorp in Peru, but also significant Asian players like Pola in Japan and European companies like Vorwerk in Germany, Oriflame Kosmetiek B.V. in Luxembourg etc.

4. The European Market

Despite performance shortcomings and systems incontinences registered lately in the European economy, revenues in the industry of direct selling were characterized by growth. With a total business of 32,609 millions USD in 2014, Europe retained the third position in the worldwide ranking by volume in direct selling industry.
Figures 5 and 6 from below show the evolution of the direct selling industry in Europe. The data has been split into Eastern and Western Europe in order to make it easier to read.

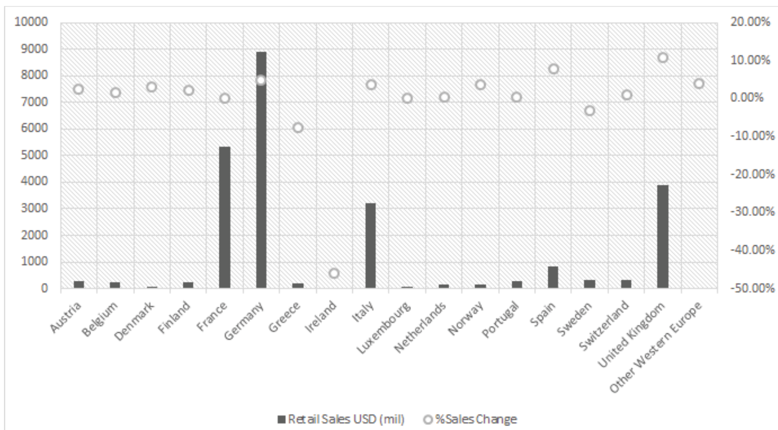
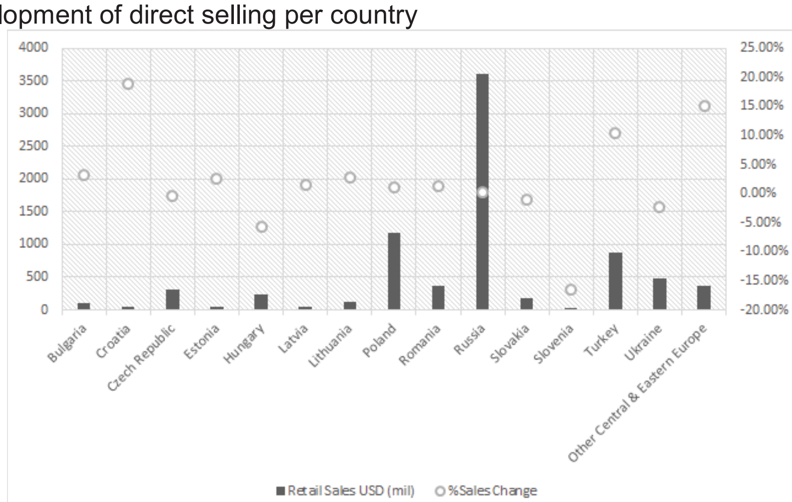


Figure 5: Global Direct Selling in 2014
Source: WFDSA Global Report, Published May 29, 2015

Figure 6: Development of direct selling per country



Source: WFDSA Global Report, Published May 29, 2015

The three leading players in the European direct selling sector remained Germany with revenues of 8,915 millions USD, France with more than 5,335 millions USD (growth influence by the parties sector, whwre consumers are able to test out products on the spot) and Russia with 3,604 millions USD (especially due to lower penetration of other retail channels in the countryside territories).

A visible expansion in direct selling industry could be witnessed also for the UK and Italy, countries summing up revenues of 3,880 and 3,225 millions USD. Furthermore, a perceivable gap was observed between the five European forerunners and other European countries, for example the sixth largest market, Poland, with a turnover of 1,187million USD.

The largest direct-seller in Europe, and worldwide, constitutes Amway, followed by Avon and Herbalife. The largest European-based company is the German entity, Vorwerk. The next largest European direct selling company is Oriflame, a well-known Luxembourg-based cosmetic player. The third place, as a major direct selling company on the European market is also a cosmetic manufacturer, the Russian brand Faberlic.

4.1 Germany – Largest European player in direct selling

Among the largest direct selling companies in Germany in 2015 we can account Vorwerk Deutschland Stiftung, Tupperware Deutschland and LR Health & Beauty Systems. In order to remain competitive many companies switch from traditional marketing to e-commerce, in contrast to a still significant number of companies that continue to invest and relay on direct selling for marketing their products.

In a study prepared in cooperation with The University of Manheim in 2015, the German leading organization of direct sales, BDD (Bundesverband Direktvertrieb Deutschland) issued an overview of the current statistic indicators in the direct selling industry in Germany.

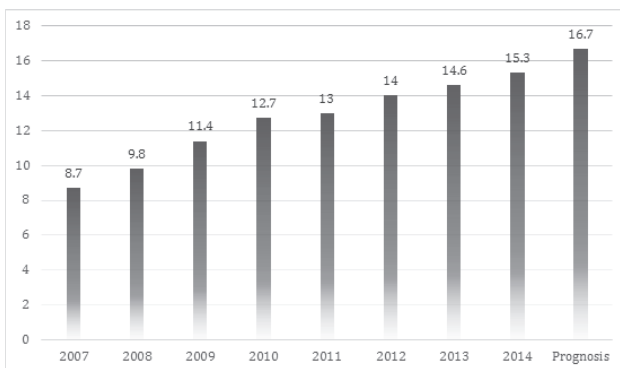


Figure 7: Direct selling revenues in billions since 2007, results of The Manheim University Research, February/March 2015
Source: BDD - Bundesverband Direktvertrieb Deutschland

In the study, direct sales firms from across Germany were examined via an online survey that took place during the period of February / March 2015. The number of participants was 211 companies from a total number of 541 companies invited to complete the survey. The response rate was roughly 40%.

The definition of direct sales used in this research was “face-to-face presentation, demonstration and sale of products or services outside the usual business or in-store premises”. Whereas, direct sales includes but is not restricted to selling products in the home or workplace of the customers but also at fairs, markets or in pedestrian areas.

The study revealed further annual growth of the industry with a total turnover from direct selling estimated at 15.3 billion euros, corresponding to an increase in sales of

approximately 5% in comparison to 2013 (14.600 Million UDS). The study forcasted a further 9.4% increase of the turnover for year 2015.
Challenges revealed by the BBDV study in the direct selling industry were noteworthy. The surveyed companies regarded goods and distribution channels as the most significant driver of growth and at the same time as the main challenge. Products and distribution channels were of particular importance and took first place - both as growth drivers as well as shortfalls.

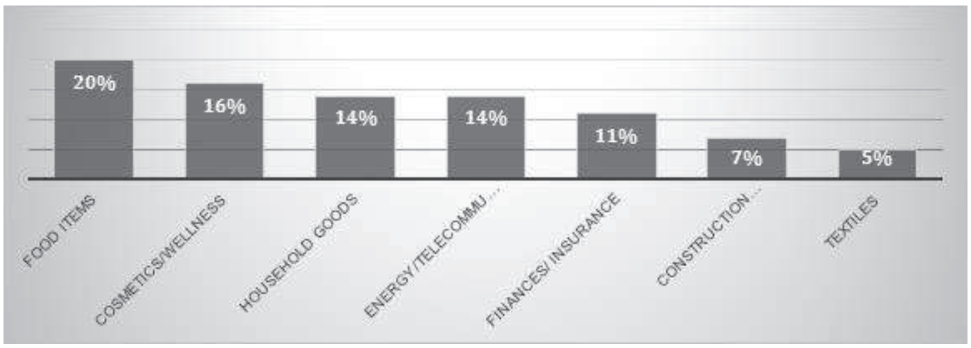


Figure 8: Types of goods and services traded in German direct selling companies, 2014
Source: BDD - Bundesverband Direktvertrieb Deutschland

Just as disclosed in the chart above, food and cosmetic products seize the top rankings on the German market, with more than one third of the total revenue coming from these products. However, according to Direct Selling Europe (2014), this changes within other areas. For example, in Sweden, the largest direct selling retailers are in the wellness sector, while in Ukraine and Turkey, beauty and personal care products account for more than two thirds of the local direct selling market.

The BDD study in Germany also revealed a massive improvement in 2014 in regards to the image that direct selling companies hold. Furthermore, the number of sales representatives working in 2014 in the direct sales industry increased from 724.000 in 2013 to 823.188 in 2014. Based on the forecasts made by The University of Manheim in 2015, it is estimated that the number of direct sellers will rise to more than 1,025,414 in 2019.
Among others reasons, the direct selling companies, which participated in the study, assess bureaucracy and the tax burden as the most disruptive factors across the industry. Nevertheless, financing issues and the economic environment are not necessarily considered disruptive.
In 2014, similarly to 2012 and 2013, the party sector in Germany ranked first among the entire pool of direct sales channels in use. After this sector, the next most widespread alternative as distribution channel is accounted to e-stores. Nevertheless, the companies participating in the survey found that proprietary sales offices and retailers continue to demonstrate their potential. The majority of the companies participating in the study estimated the most their investments resulted in marketing and sales, with are the IT and HR as next sectors of investments.

5. Conclusion

In the European Union, the work force tied to the direct selling industry sum up roughly 5 million people, withanother 12 million throughout the entire continent. Direct-selling companies engage circa 25,000 employees in Europe. Moreover, between 2015 and

2020, direct selling is expected to continue manifesting a rising development from the previous years. Nevertheless, despite the recent decent increase and the growing consumer demand for personal selling, the forecasted results are expected to be slightly smaller than so far, due to the strong shift towards Internet retailing. Despite the fact that in rural areas store-based retailers are disappearing, direct sellers simply do not have the manpower to reach all these areas, which by contrast e-commerce is able to accomplish.

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