

ABOUT DIRECT SALES IN THE WORLD, EUROPE AND ROMANIA

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ABSTRACT: *Direct sale represents a modern product distribution system directly to consumers, generally, directly to their homes, to their workplace or other places, beside retail shops. The best known type of direct sale, the Network Marketing or Multilevel Marketing implies the existence of a network of distributors which earn income from selling on commission, to which they add the trade markup. This paper is based upon the analysis of these types of sales starting with the study of specialized literature especially by foreign authors, mainly Americans, with the analysis of statistical data presented by several organizations such as SELDIA (The European Direct Selling Association), MLM International Romania, ACVD (Association of Direct Selling Companies in Romania), as well as the legal regulations within this field. In conclusion, the paper presents an interesting comparison of the sales and structure volume between the Europe and Romania.*

KEY WORDS: *direct sales; network marketing; sellers; franchise.*

JEL CLASSIFICATION: *M16; C15.*

1. INTRODUCTION

In the long run, the term franchise has been associated with different definitions according to the point of viewing and to the field of activity in which it was used. In a simple sense, franchise means a license allowing the designee to sell and market a company's products or services in a particular place, using the name or the trade mark of the company; it allows him to do business for himself but not through himself. From the marketing point of view, franchise represents a distribution system based on the partnership between two parties which are legally independent, between the franchisor (the proprietary owner, the owner of the trade mark of products and services) and the franchisee (Dura & Isac, 2006).

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Developing a franchise using a well-known trade mark, as well as the name of a company has enabled the development of a more complex distribution system, which is different from the classic marketing systems.

Thus, seen from the marketing point of view, there arose a new form of selling which presents the products directly to consumers without using the characteristics of the classic sales, meaning the existence of shops, of product stocks, of storehouses etc. Invented by the “Yankee vendors” who traveled across America to market their goods, direct sales have become reality, as proven by the development of companies which successfully implement this distribution method at the beginning of the third millennium (Dumitraş, 2003).

The European Direct Selling Association defines direct selling as a method of marketing and retailing goods and services directly to the consumers, in their homes or in any other location away from permanent retail premises.

It is usually conducted in a face-to-face manner – either where products are demonstrated to an individual, or to a group or where a catalogue is left with the consumer and where the direct seller calls later to collect orders.

Unlike direct marketing or mail order, direct selling is based principally on personal contact with the customer (<http://www.seldia.eu/direct-selling/about>).

The economic importance of direct sales has made a series of famous specialists, among which John Naisbitt, study this phenomenon and reveals four important stages in its evolution:

- ✓ *pioneer stage* (1945-1977) characterized by the successful development of US companies such as Amway or Nutrilite – as well as by the beginning of direct sales within Europe and Asia;
- ✓ *professional stage* (1977-1990) did not refer only to an accelerated increase of the sales volume, but also to the implementation of some modern strategies for setting up a network of distributors;
- ✓ *information stage* (1990-2000) enabled the use of information technologies to control the network of distributors on the one hand, while on the other hand it made use of modern methods of promoting and delivering the products to the customers' doors;
- ✓ *globalization stage* (2000-present) is still in progress and it is characterized by an explosive increase of the volume of direct sales due to the fact that the range of products and services marketed through direct sales has been enlarged by the growing number of distributors that are highly motivated by the financial advantages offered by this type of sales; moreover, it is easier to penetrate the international market using the Internet.

2. DIRECT SELLING IN THE WORLD

In 2010, within 100 list direct selling company, the top 10 companies contributed 39\$ billion to the world economy.

As we can see in the next picture, the 2001-2010 retail sales show a stagnation, even the maximum has reached in 2006 (32.18 billion dollars) the 10 years average is around 28 billion dollars.

The structure of products category is quite the same in Europe like international one, which it means the first two places are taken by Cosmetics & Personal Care and Wellness, which claim more than 50% of sold products through direct sales.

The next places are taken by Clothing & Accessories with 16% and Household Good & Durables with 9% or Financial Services with 5% (http://www.wfdsa.org/about_wfdsa/?fa=globalStats).

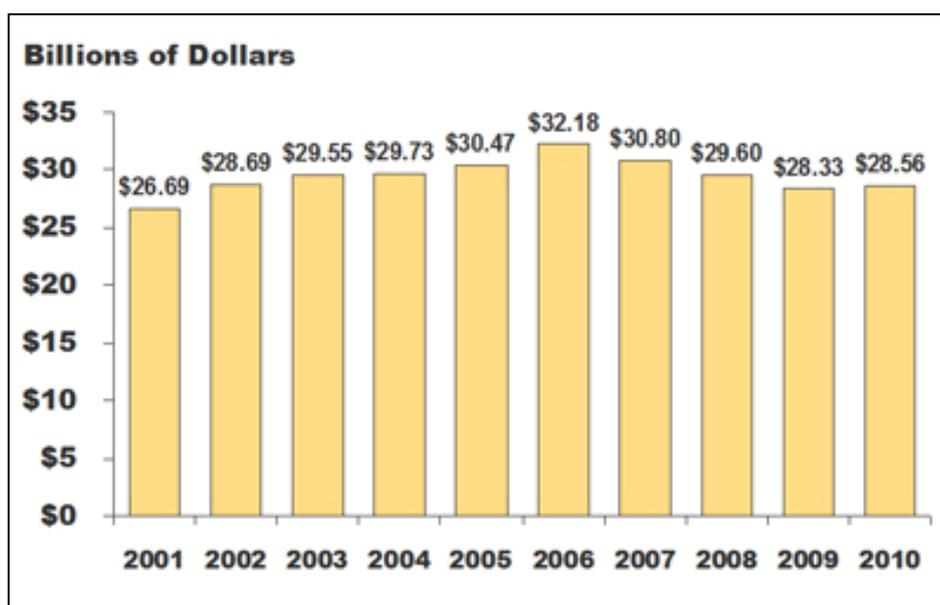


Figure 1. Retail sales in 2001-2010

3. DIRECT SELLING IN EUROPE

In Europe, the direct sales volume is near 20 billion dollars and the biggest sales are in Germany with 3761.9 million dollars, Italy 3361.2 million dollars, Russia 3062 million dollars and France 2413 million dollars.

The top countries after the number of selling people are Russia with almost 5 million sellers, followed by Ukraine, with more than 1436000, Italy, Germany and France. Sales volume are proportional with number of selling people in the most countries, which it means one seller has near 1600 dollars sales volume.

Another interesting conclusion is in Europe 82% of seller are women, in some countries this percentage are very high, by example in Czech Republic, Estonia and Lithuania with 95%. In every countries the women seller percentage is more than 50%, just very few of them like Switzerland has only 53% or Austria with 55%.

Direct selling is a large and growing sector within the non-store retail trade in Europe. Direct sales volume shows a constant growth over the last five years and over 6 million people are engaged in direct selling in European Union. Direct selling

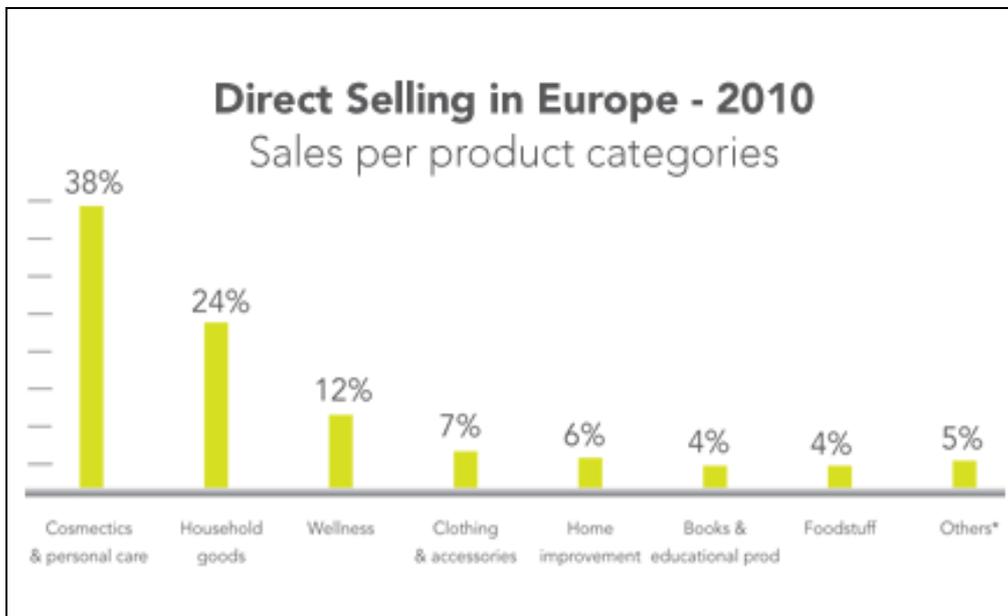
companies offer in Europe permanent employment to over 26,000 people and 76% of the products they sell are manufactured in Europe.

Table 1. Indicators concerning direct sales worldwide

Country	Estimated Retail Sales (bill. \$)	Number of Sellers	Salesforce Women %	Part time %
Austria	266.7	14000	55	75
Belgium	234.5	18122	67	65
Bulgaria	68.9	86446	87	54
Croatia	33.8	34820	63	96
Czech Republic	223.5	223673	95	85
Denmark	125.9	99500	70	95
Estonia	17.2	20960	95	-
Finland	202.8	80000	80	92
France	2413	265000	80	80
Germany	3761	460000	88	90
Greece	120.4	102016	-	-
Hungary	250.2	316448	76	90
Ireland	74.3	17758	71	82
Italy	3361.2	390995	79	99
Lithuania	41.1	31235	95	-
Luxemburg	13.9	600	-	-
Netherlands	131	36135	81	86
Norway	280.6	188800	85	90
Poland	698.7	869328	88	85
Portugal	95	12708	-	-
Romania	204.4	345560	84	31
Russia	3062	4995508	80	44
Slovakia	98.6	98000	-	-
Slovenia	36.1	35000	65	80
Spain	611.2	185000	88	96
Sweden	387.8	100000	75	95
Switzerland	383.8	10000	53	60
Turkey	441.7	612814	90	65
Ukraine	540.2	1436100	-	-
United Kingdom	1397.2	278000	85	87
Total	20217.4	12363486	82	70

Source: *Special Supplement to the Wall Street Journal by Direct Selling News – The Ultimate Social Business Model*

From the point of view of the categories of products, it is noted that over the past few years in cosmetics and personal care sales rankings are maintained, and in 2010 as their share of almost 38%. The total of household goods and wellness represent more than 36% followed by clothing and accessories with 7%, home improvement 6% and same shares of 4% foodstuff and books & educational products.



Source: <http://www.seldia.eu/direct-selling/companies-products>

Figure 2. Structure of product categories

4. DIRECT SALES IN ROMANIA

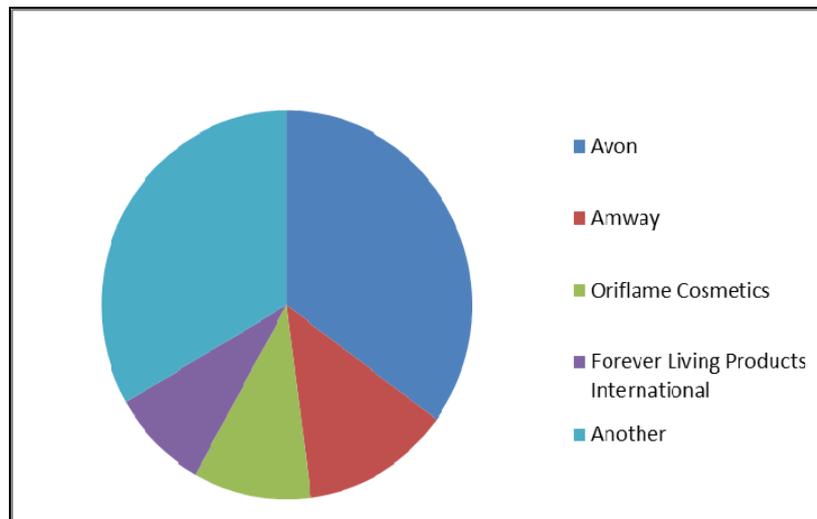
The beginning of MLM activities in Romania is related to the admission of some private Austrian life insurance agents on the market. Only after 1994 can we mention some MLM companies which were registered as legal entities and which obey the Romanian legislation. At present, according to the statistics made by the Association of Direct Selling Companies in Romania, there are at least 70 companies that promote direct sales and they comprise over 270.000 distributors.

An important factor for increasing the turnover generated by direct sale companies and multilevel marketing networks represents the wide range of products and services with a structure that is continuously changing. Thus, if between the years 1996 – 2002 prevailed the sales of cosmetics, body-care and nutritional products lately, this selling system has incorporated insurances, especially life insurances (11.5% in 2005), private pensions as well as real estate sales. As far as the insurance system is concerned, into the picture came insurance brokers who are authorized by the Insurance Surveillance Committee which distributes its products through direct sales and Multi Level Marketing (Safe Invest Romania, Salve-Club, Fin-Cop Broker, EPM Romania etc.) and which extended its services in this field due to the context of implementing the compulsory and optional private pension system in Romania starting with the year 2007 in the case of optional pensions and with the year 2008 in the case of compulsory pensions by signing adhesion contracts to a private pension system.

As far as the real estate sales are concerned, an important step is represented by the setting up of specialized banks such as the banks for houses which have interesting

offers for individuals who want to invest in real estates by signing Bauspar contracts according to the collective credit system and which function based on direct sale contracts. At present, in Romania there are two banks which offer loans for houses and they are Raiffeisen Bank for Houses SA and HVB Bank for Houses, founded in 2004 and 2005 respectively, with an increasing number of contracts. Therefore, the career system for the direct sales promoted by Raiffeisen Bank for Houses SA made it possible for the 3500 distributors to have signed contracts over EUR 700 mil for over 100.000 clients by January 1st, 2007.

Another important aspect of direct sales and multi level marketing is represented by human resources because marketing systems rely on the principle of multiplying the efforts of distributors within a structure and creating education and training programs. At present, in Romania, beside the 750 employees of direct sale and multi level marketing companies there are over 250.000 who earn extra incomes from the commissions resulted from this type of sales.



Source: <http://www.money.ro>

Figure 3. Direct Selling Company in Romania

In the present, the direct sales volume knows an easy growth to 282 million euro in 2011, after what in the 2010 was near 278 million euro and in 2009 around 280.4 million euro, conform to Euromonitor statistics. Personal care and beauty products represent 88% of the total Romanian direct sales volume which it means the most important category. This important ponder of cosmetics and personal care is demonstrated by the position of the companies in the Romanian market.

So, the Romanian direct sales leader is Avon with 35% followed by Amway with 12.9%, Oriflame Cosmetics with 10.3 and Forever Living Products International with 8.5%. All the other market players have 33.3% .

5. TRENDS IN DIRECT SELLING BUSINESS

Some of the trends have already been mentioned above:

- strong growth in international markets. Direct selling continues to perform strong during the global economic crisis;
- high participation of women. Women are beginning to realize that the Internet makes it possible for them to reinvent themselves and begin a business that requires little risk and low start-up cost;
- there are no age limit to develop the business;
- important market shares for cosmetics and household goods;

Besides these trends, the Internet has a positive influence on direct sales industry. Internet has had an impact in relations between direct seller and the company and between the direct seller and the consumer. The main levers through which the Internet helps the development of this industry are:

- The internet has allowed direct sellers and customers to maintain contact outside the face-to-face meetings;
- Direct sellers have started blogs and social media page;
- Direct sellers use electronic mailings and have online access to product and services brochures;
- Paying through Internet banking;
- Using Internet banking for paying;
- More and more people were extended his professional activities of direct selling through the use of the Internet and social networks.
- A direct selling activity can be run from home and does not require a high investment.;
- Some may even give follow-up orders by electronic means. However, despite this convergence of physical.

From the seller's point of view, the major attraction of direct selling is that it offers an equal and flexible income opportunity to men and women, across all ages, level of experience and social origins. In this context, the direct selling industry development trends will be direct influenced by maintaining these advantages for the distributors and by using and developing the communicating modern technologies.

6. CONCLUSIONS

The economic results and the dynamics of the goods and services distribution through direct sales and multi level marketing are determined by a set of economic, technologic and even social factors. The economic – financial analysis is sometimes considered by the specialized literature as being limited, and because of that we think it is necessary that the diagnostic analysis should be completed with the evaluation of the stability of the management system of companies specialized in this kind of sales.

In conclusion, sales through direct marketing and multilevel marketing are one of the most dynamic and fast distribution methods in the world; for Romanian salesmen it represents an opportunity for future development of businesses and for increasing living standards.

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