DIRECT SALES AND NETWORK MARKETING: DYNAMICS, STRUCTURE AND TENDENCIES IN A GLOBAL ASPECT

Chief Assist. Prof. Valentina Makni, PhD

Clarifying basic concepts

As a method for reaching consumers, modern direct sales are part of the bigger sector of retailing and its trend non-store retailing in particular. Their essence lies in explanations and demonstrations of products or services with the help of personal communication with consumers, most often in the client’s home or office. Direct sales are one of the oldest forms of sales policy that emerged much earlier than the other methods of sales, yet today, they still retain their significance. Their origin dates back to USA at the end of XIX C and the first companies operating in the field – Avon and Singer. Sales were carried out in two main types – traditional sales through single-level distributors and direct sales in a multi-level network. From the 1950s sales started improving and step by step classical direct sales were pushed behind, leaving more and more space to the innovative form – network marketing (multi-level marketing or MLM). It is especially popular in the context of information society in which creating products and services, as well as adding value, are done through social networks globally.

From the point of view of the science of economics, network marketing is a concept guided by network economy in which, according to Kotler & Achrol “the hierarchic organizations of XXI C disintegrate into multitudes of network structures, including inner, vertical, inter-market networks and networks of opportunities.” In a similar dynamic and information-wise rich environment, by principle the radical

---

1 The paper is part of the study in the Contract for scientific-and-applied research work with UE-Varna, SP 73/2012 „Network marketing – unknown reality”.
intervention of marketing is its transition from a salesman’s agent to a purchaser’s agent, from marketing products and services to consulting clients and managing their consumer assets. In this sense network marketing appears to be an optimum connecting link between an organization and consumers “with a broad social calling, through an unusual combination of organization practices and management strategies”.6

There is no widely accepted definition of MLM yet. The American marketing association defines it as a strategy and selling approach of companies to carry out direct sales by using independent agents (distributors), structured on many levels in order to sell the company goods/services to other agents or end users.7

The main difference between classic direct sales and multilevel ones lies in the enlarged opportunities for the distributors (direct representatives) of the second type – besides carrying out personal sales to end consumers, they can build up their business organization with a team (network). Thus they can make money not only owing to the margin in their clients’ sales, as well as to extra income from selling to people whom they have attracted, motivated or trained.8

According to the US tax office IRS direct sales and network marketing in particular, offer significant advantages, on the one hand, for people seeking opportunities for more income and setting up their own company and business and, on the other, for consumers who prefer the alternative of shops and shopping centres; on the third hand, for the market of consumer goods.9 IRS outlines those as a substitute and addition for traditional employment both for people who search for flexible opportunities for earnings in order to increase the family income, and for those who are not able to work full-time. This specific feature of MLM in the form of flexible employment is in unison with one of the characteristic tendencies of network economy – transformation of traditional employment and individualization of labor.10

The study gives generalized data on direct sales, including the traditional forms for carrying out network marketing too, the latter accounting for the prevalent share in the industry.11 In 2011 more than 50% of all direct-sales companies and 95% of those in the USA apply network (multi-level) approach.12

---

8 The European Direct Selling Association, What is direct selling?
9 Internal Revenue Service, Retail Industry ATG – Chapter 3: Examination Techniques for Specific Industries (Direct Sellers)
11 In specialized literature direct sales and network marketing are defined as an industry (Pilser, 2010; Internal Revenue Service); profession (King, 2000, business model (Poe, 2008, Wall Street Journal), distribution channel (World organisation for direct sales).
12 WFDSA, Global Report on Sales Methods and Compensation Plans – 2011, Published 6-2-2012
Global direct sales by countries and regions

In the course of decades North America has been developing as the largest region for direct sales and network marketing. Since 1990s this business model has even more actively set its foot on the Asian markets. In doing it, the Asian-Pacific region holds a leading position. In 2012 it accounts for 44% of the global market for direct sales, followed by North and South America – 39%, Europe (16%), Africa and the Middle East (1%) (Fig. 1)

Source: WFDSA, Global Sales and Direct Selling Community – 2012.

Figure 1. Regional markets for direct sales in 2012

In national aspect, the ten leading countries with the largest relative share of direct sales in 2012 account for 76% of the world market. USA is the largest market with a share of 19 %, followed by Japan (14 %), China (12%), Brazil (9%), Korea (8%), Mexico (4%), France (3%), Malaysia (3%), Russia (3%) and Germany (2%). (Fig. 2) Unlike past years, in 2012 on the ten leading markets the ratio between developed and developing/emerging markets prevails for the benefit of the latter.

---

An organisation which published an annually comparative data on direct sales worldwide is the World federation for direct-sales associations (WFDSA). Until 07.2014 the latest relevant data about the industry concern 2012 and can be found at www.wfdsa.org
Since the 1990 there has been a tendency of a growing number of countries which make an annual turnover of direct sales amounting to USD 1 bn. Until 2000 the number of these countries is 14 and most of them (eight) are developed. Until 2012 the countries with direct sales over USD 1 bn per year were 23 already, yet, the number of the developed countries among them remains the same. A fact is that the increase is completely due to the developed countries and the emerging markets. Currently 15 developing countries and only 8 developed ones make an annual turnover of more than USD 1 bn. (Table 1)

The main prerequisite for this is the combination of intensive internalization, especially in the last 2-3 decades, opening markets to the East and the developing private sector and entrepreneurship on these markets. Direct sales are an exceptionally labor-intensive industry which, together with the low barriers for penetration in the distribution business, is an especially favorable factor in the less developed countries.

### Table 1

<table>
<thead>
<tr>
<th>Countries</th>
<th>2000</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Developing/emerging</td>
<td>6</td>
<td>15</td>
</tr>
</tbody>
</table>

**Source:** Author’s interpretation of data by WFDSA.

In 2012 net sales of the ten largest transnational companies for direct sales amounted totally to USD 44 bn\(^\text{14}\), with which they account for more than j of the...
global direct sales.\textsuperscript{13} This fact shows that on the whole, the structure, dynamics and tendencies in the industry to some extent depend on the development of the leading companies in it.

Undoubtedly, in the last two decades the main driver of world economy has been the transnational corporations (TNC) and their direct foreign investments (DFI). At the time of the world economic crisis in 2008 global economy and many sectors marked decline and slowdown. The period of time of high growth of TNC since the 1990 until today has been characterized with strong dynamics and double drop – once in 2002-2003 (when the technological balloon burst, known as dot.com balloon-pop) and in 2007-2009 (at the time of the world financial-and-economic crisis). (Fig. 3)\textsuperscript{16} A similar tendency of global flows of TNC is followed by the sale of their overseas branches. (Fig. 4)

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3.png}
\caption{Global flows of TNC’ DIF (1995-2012)}
\end{figure}

\textit{Source: UNCTAD, World Investment Report 2013.}

Almost all industries and sectors were affected to a different extent by the last crisis – car-making, chemical, metallurgy, construction, business services, financial intermediation, transport, communications and many others.\textsuperscript{17} The tendency among retailing companies, direct sales in particular, is different. In 1993 global direct sales amounted to USD 62 bn. In 2012 they reached 167 bn (an increase of 170\%). For the same period the number of people registered as direct representatives in the industry increased 6 times – from 15m to 89m in 2012.\textsuperscript{18}

\textsuperscript{13} Transnational corporations make direct foreign investments in the form of mainly mergers and takeovers or in the green, in which they possess or control production, commercial or other assets abroad. See Младенова, З. в Гаргов и колектив: Международен икономикс, Глава XI: Преки чуждестранни инвестиции и транснационални корпорации, “Наука и икономика, ИУ - Варна, 2010, с. 403-441.

\textsuperscript{16} UNCTAD, World Investment Report 2013.

\textsuperscript{17} UNCTAD, World Investment Report 2010.

\textsuperscript{18} WFDSA, Global Sales and Direct Selling Community - 2012.
Unlike the common tendency in TNC and their overseas sales, since the beginning of the 1990s global direct sales have marked a constant growth in their development. Until today, in the course of two decades, only a slight fall was reported only in 2000 and 2001 (Fig. 5) Since 2007 when almost all industries were affected and reported big drops, global direct sales have marked an annual growth of 10% average. Indicative is the fact that the growth in time of and after the crisis is even larger than before it, estimated per year. 

* Data for 2011 and 2012 have been estimated in dollars by constant prices and all data shown are without VAT.

Source: www.wfdsa.org

Figure 5. Global direct sales in billion USD*
One of the reasons for this fact is the unfavorable economic environment in corporate business which results into a strong increase of unemployment internationally.

Using assessment, globally every day more than 70,000 people join direct sales.\textsuperscript{20} In 2011 in Europe 25\% of the newly joined distributors were unemployed.\textsuperscript{21} For 2012 the Irish association for direct sales reported a 60\% increase of young newly registered distributors aged below 25, where the share of the youth segment in Irish industry reached 13\%. The share of young people who joined direct sales in Great Britain, went up by 29\% compared to 2001, their share in national industry reaching 19\%.\textsuperscript{22}

I share the opinion that recession helps the growth of network marketing\textsuperscript{23}, because when traditional sectors lose job vacancies many people seek alternative opportunities. In turn, young people are attracted by the flexible MLM model of doing business, international at that. Maybe network marketing is one of the few industries that offer employment to a limitless number of people, the reason for it being its especially difficult labor intensive ability and the lack of barriers for settling in the business.

\textbf{Gender distribution in direct sales}

The industry has a proven strong gender effect. According to WFDSA globally 75\% of its representatives are women and 25\% - men. And this is hardly by chance – network marketing is called "the Pink economy".\textsuperscript{24} In 2010 in USA women generated annual directs sales of USD 29.6 billion. The gender distribution is most strongly mismatched in Central and South America where direct sales are carried out mostly by women (92\%). The smallest difference is in Asian countries. Women there are 68\%.\textsuperscript{25} (Table 2)

\textsuperscript{21} The European Direct Selling Association, Promoting the Benefits of Direct Selling, SELDIA Annual Report 2011-2012.
\textsuperscript{25} WFDSA, Global Sales by Sales Methods - 2012.
Table 2

<table>
<thead>
<tr>
<th>Representatives by regions</th>
<th>Women</th>
<th>Men</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia-Pacific</td>
<td>68</td>
<td>32</td>
</tr>
<tr>
<td>South Africa</td>
<td>86</td>
<td>14</td>
</tr>
<tr>
<td>North America</td>
<td>77</td>
<td>23</td>
</tr>
<tr>
<td>Central and South America</td>
<td>92</td>
<td>8</td>
</tr>
<tr>
<td>Western Europe</td>
<td>78</td>
<td>22</td>
</tr>
<tr>
<td>CEE</td>
<td>86</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: wfdsa.com

According to a study, among 2500 distributors in India (on this market 64% of those employed in direct sales are women) network marketing gives women an opportunity for financial independence and self-esteem. In USA, for example, three out of every four adults living in poverty are women. It is a proven fact that it is harder for women to find employment, with less payment, at that; besides, they rarer keep their job for a long time due to natural family responsibility. Not by accident, a big part of the representatives of the industry are mothers with children. The very nature of network marketing - striving for cooperation instead of competition, good relations through more communication with other people, sense of justice – is an inherent characteristic advantage of women. From economic perspective for women network marketing is a tool for a bigger income, reaching independence and increasing the family budget.

Product distribution in direct sales

Product distribution in global direct sales falls into three prevalent categories of products: beauty and personal care or BPC – 35%, wellness – products for health – 25%, household products and appliances for long-term use (14%). The share of all remaining categories is below 10%. The product range in the industry is another obvious reason for the prevalent activity of women.

The main reason for the data given above is the fact, that among the ten global leading companies for direct sales, which accounted for of global direct sales in 2012, six come from the category of beauty and personal care (Table 3)

---

29 WFDSA, Global Sales by Product Category – 2012.
Table 3

The ten largest global companies by net sales in 2012

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
<th>Key product category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Amway</td>
<td>USA</td>
<td>Wellness</td>
</tr>
<tr>
<td>2. Avon</td>
<td>USA</td>
<td>Beauty and personal care</td>
</tr>
<tr>
<td>3. Herbalife</td>
<td>USA</td>
<td>Wellness</td>
</tr>
<tr>
<td>4. Vorwerk</td>
<td>Germany</td>
<td>Household appliances</td>
</tr>
<tr>
<td>5. Natura</td>
<td>Brazil</td>
<td>Beauty and personal care</td>
</tr>
<tr>
<td>6. Mary Kay</td>
<td>USA</td>
<td>Beauty and personal care</td>
</tr>
<tr>
<td>7. Tupperware Brands</td>
<td>USA</td>
<td>Goods for home</td>
</tr>
<tr>
<td>8. Nu Skin</td>
<td>USA</td>
<td>Beauty and personal care</td>
</tr>
<tr>
<td>9. Oriflame</td>
<td>Luxembourg</td>
<td>Beauty and personal care</td>
</tr>
<tr>
<td>10. Belcorp</td>
<td>Peru</td>
<td>Beauty and personal care</td>
</tr>
</tbody>
</table>

Source: directsellingnews.com

The products sold most often in the industry of direct sales are strongly personalized ones and have direct contact with oneself (beauty and wellness products). They enable sharing one’s personal experience and the results of using them, which stimulates even more the closer link and more active communication between the distributor and his/her clients, thus leading to more successful sales. In the industry of direct sales the ruling statement says that a distributor needs to be the product of his products and he himself is the best advertisement, in which one’s personal use of the products is especially important. To have good social relations that often result into economic benefits is a sufficient motivation for many people to become part of network marketing.

Methods of product marketeering in direct sales

In direct sales there are applied two basic methods for rolling out products and reaching clients. The first and more popular, is person-to-person. In it the distributor meets a potential client and presents the product and the business opportunity. The second and less applied method is group presentation or the so called party plan. The distributor hosts it in his home. There products are presented, samples and tasting are offered, in which a certain number of the people invited make a purchase. Internationally, 80% of direct sales are carried out through person-to-person, 18% - through a party plan and 2% - through other methods (personal and official company sites, social media, automatic offers and others.)

---

30 Companies which distribute their products through the method of direct sales and network marketing have the rule not to use advertising as a means of promotion, since instead of it they pay a commission to their independent representatives who also do live advertising by word of mouth.

31 WFDSA, Global Sales by Sales Methods 2012.
Tendencies in the industry of direct sales and network marketing

In the last decade of the development of the industry of direct sales the following tendencies stand out:

• Globally, more and more countries make a turnover from direct sales amounting to USD 1 bn; yet, their number goes up at the expense of developing and emerging markets which is exactly the tendency in the dynamics of TNC as a whole. The biggest contribution in this respect is that of the countries in Asia-Pacific and Latin America. In USA, where network marketing originated, there is a certain saturation of the market, since 10% of the workforce in 2012 was part of the industry. More and more developing countries become active participants in direct sales which shapes a tendency for providing income for the population in these countries.

• Against the background of the world financial-and-economic crisis, direct sales and network marketing are one of the few industries that report neither fall, nor stagnation, instead they mark an annual growth of 10%. A prerequisite for this is the fact that they offer employment without any restrictions in respect to gender, race, education or skills. This allows labor-intensive countries to decrease the pressure on their labor markets.

• Unlike past centuries when growth in the industry was due mainly to the product category of beauty and personal care, in the last couple of years one sees a stable growth in two other basic product categories – wellness (nutrition additives, products for losing weight, healthy foodstuff) and services (utilities and financial). Forecasts say that the products aiming at one’s care for health will be the leading channel in direct sales in the future. Compared to institutional healthcare, personal-care products in some countries (e.g. USA) are assessed as a more economic and efficient way for decreasing future costs for healthcare. In turn, the tendency for aging of population globally, especially in developed countries, and the specifics of the “baby boom” generation create a favorable market for those companies which aim to sell natural products for health and rejuvenation.

• Demographically and gender-wise, one observes several characteristics. Women are the prevailing gender in the industry of direct sales which is an indicative factor that they are offered good opportunities for generating income. In the years after the world crisis, however, men take even more active participation. To some degree this refers to a lot of job vacancies in the sector of industries. It is a fact that the young generation is more involved too.

33 Euromonitor International, Direct Selling in the US, April, 2013.
34 The baby-boom generation are the people born after World War II (between 1946 and 1964) who caused a strong demographic growth in developed countries. This generation had a significant impact on and boosted the development of economy. In the course of decades it caused the origin and change of whole industries. At this stage it stimulates the development of the wellness industry.
some extent this results from growing youth unemployment in many countries\textsuperscript{35}, as well as from the more active application of modern information and communication technologies in network business, which attracts more young people.

**Direct sales and network marketing in Bulgaria**

The surveyed retailing subsector made its first steps after the changes in the 1990s. According to data from Euromonitor, out of the four channels for non-store retailing in Bulgaria direct sales account for the biggest share (54%). In the last five years their tendency has been to grow steadily (Table 4). The second most developed channel is Internet sales, whose share in total non-store sales in 2013 was 38%. Even though having a smaller relative share, Internet-sales growth is bigger than that of direct sales, respectively a growth of 52.3% compared to one of 31.8%. The forecast is for a growth of 3% in direct sales in the coming years.

**Sales in non-store retailing by channels in BGN m**

<table>
<thead>
<tr>
<th>Sales channels</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct sales</td>
<td>94.3</td>
<td>104.1</td>
<td>107.0</td>
<td>111.6</td>
<td>118.5</td>
<td>124.3</td>
</tr>
<tr>
<td>Shopping from home</td>
<td>4.1</td>
<td>3.5</td>
<td>3.6</td>
<td>3.6</td>
<td>3.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Internet sales</td>
<td>58.6</td>
<td>65.1</td>
<td>70.1</td>
<td>77.4</td>
<td>82.4</td>
<td>89.2</td>
</tr>
<tr>
<td>Vending sales</td>
<td>13.0</td>
<td>13.4</td>
<td>13.2</td>
<td>13.4</td>
<td>13.9</td>
<td>14.4</td>
</tr>
<tr>
<td>Total non-store sales</td>
<td>169.9</td>
<td>186.1</td>
<td>194.0</td>
<td>206.0</td>
<td>218.5</td>
<td>231.8</td>
</tr>
</tbody>
</table>

Source: Euromonitor International, Retailing in Bulgaria, Market Data, 2013

In comparing data of the World federation for direct-sales associations WFDSA, in 2012, Bulgaria ranks 6\textsuperscript{th} in the industry among all CEE countries that have participated in the eastward expansion of EU. We need to point out that in many European countries the industry of direct sales marks a decline. Those employed in it are 135 000, which accounts for 45% of all employed in retailing\textsuperscript{36} and 6% of total employment in Bulgaria.\textsuperscript{37} Of all direct representatives 86% are women and 14% men.\textsuperscript{38} This data is

\textsuperscript{35} The problem of youth unemployment worldwide is called the phenomenon of the “scarred generation”. See, ILO, Global Employment Trends for Youth 2012. For example, in EU youth unemployment is much higher than unemployment of the remaining population. In 2012 in EU it reached 22.8%, which exceeds more than twice general unemployment of 10.5%. See Eurostat Unemployment Statistics.

\textsuperscript{36} Po danni na Evromonitor prez 2012 g. v Balgariya zaetite v targoviyata na drebno sa 300 hil. dushi.

\textsuperscript{37} Po danni na NSI, Pazar na truda, godishna statistika na zaetostta za 2012 g. http://www.nsi.bg/bg/content/3953/%D0%BD%D0%B0%D1%86%D0%B8%D0%BE%D0%BD%D0%B0%D0%BB%D0%BD%D0%BE-%D0%BD%D0%B8%D0%B2%D0%BE

identical with the gender ratio of distributors in CEE. One needs to have in mind that the data on distributors in Bulgaria includes only the registered companies that are members of the Bulgarian association for direct sales (BADS) through local agencies. This means that actually their number is bigger. Until this moment there are seven of these companies - Avon, Aquasource, Forever Living, Oriflame, Royal Sales International, Vision and Zepter. The world largest MLM company Amway is to be a member soon.

Having in mind this fact, one can appreciate the reality that the number of direct representatives in Bulgaria obviously exceed the data in official statistics. According to unofficial data, in the country there function between 20 and 30 companies for direct sales and network marketing. It is hard to make a precise estimation of their number, simply because their offices nationwide are not officially registered. To some extent, the reason for this is the growing role of Internet marketing and marketing of services, which diminishes the need of setting up physical agencies by countries. A number of companies have official agencies that are not part of BADS, such as: Rainbow, Herbalife, Tupperware, LR Health & Beauty Systems, PM International, Stemtech International, FM Group, Coral Club International. On the market there operate also several Bulgarian MLM companies. “Green master” and “Green apple” are some of the first that manage to stay on the market for more than ten years.

According to Euromonitor, the companies with the largest market share Avon (44 %) and Oriflame (24 %) are losing their relative share in the last couple of years. The strongest presence on the Bulgarian market is that of the product category beauty and personal care (53 %), followed by wellness products (37%), household goods for long-term use account for the lowest share (9%). In the coming years the forecast is for a strong growth of wellness products. The categories mentioned above are restricted only in respect to the product range of the BADS member companies, because in Bulgaria there operate firms with different products, including services that do not fall into this statistics.

Network marketing (MLM) keeps being popular in Bulgaria and is the preferred method for sales by direct-sales companies; however, its image among people is not good because of the negative experience of many people with fraudulent financial schemes in the 1990s. Despite this fact, new MLM companies set foot in Bulgaria all the time. This tendency is explainable, having in mind the strategies for market diversification implemented by companies, the phase of growth in the industry lifecycle in the CEE countries and the low incomes of the population in them. In turn, more and more Bulgarians join network marketing, since for part of them it has turned into a main and only source of income, whereas for most of them it brings extra money.

The following conclusions can be drawn:

1. The prerequisites driving the growth of network marketing in developed and developing countries are various. In industrial societies this growth is caused by aging of population, high unemployment rate, a lot of redundancies in the traditional corporate business due to the world crisis and the development of outsourcing. In the economies in transformation the basic prerequisite for the successful emergence of the method is the transition from state to private sector, the development of entrepreneurship and the strive for extra (more) income in these countries. On emerging markets the drive of the direct-sales industry is their large saturation capacity, the significant role of micro-entrepreneurship and smaller participation of women in the labor market. Worldwide, the general prerequisites for growing direct sales are globalization, increasing insecurity of traditional employment and entering the age of information.

2. Having in mind the specifics and tendencies of direct sales and network marketing, as well as the unregulated Bulgarian market, more attention needs to be paid to the industry, its socio-economic impact and the prospects for development of the country. In this direction surveys can be carried out concerning the link between MLM and macroeconomic indicators like employment, unemployment, incomes (salary) and others. Therefore, work should be done for creating national legislation that regulates first retailing; then, on a next stage, direct sales should be also involved, using the example of other countries. Such measures will reduce fraud in the sector and will make prerequisites for optimum use of its potential in society.

Sources
Chief Assist. Prof. Dr Valentina Makni

Direct sales and network marketing in particular are a growing area in non-store retail trade to which until the present moment there has been paid little attention in Bulgarian economic science. That area forms a global industry, which in 2012 realized a turnover of 167 bln dollars, owing to 90 mln independent direct representatives all over the world. The present study aims at presenting an analysis and a global survey of the dynamics, structure and trends in its development during the past 1-2 decades. Taking into account the peculiarities of this area in the tertiary sector of the economy – the service sphere, the ambition of the author is to perform a comparison with the peculiarities of the world economy as a whole, which have emerged in the period under consideration, and on that basis to point out some conclusions on the prospects created by direct sales and mostly their main form of manifestation – network marketing.

**Keywords**: direct sales, network marketing, MLM, retail trade.