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Direct Selling Business Model – A Review

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Abstract: ***The direct selling business model has been recognized worldwide as one of the most consumer-friendly business model to improve accessibility to quality goods and services. It is attractive to individuals who seek flexible working hours or professional independence with less operating costs. Direct Selling is also advantageous for countries' economies since it reduces the transaction costs and mediatory intervention at the same time narrowing the gap between the manufacturing and the retail price. In this review article different business approaches are explained with more operating information on direct selling businesses and network marketing opportunities and the growth of the DSI - Direct Selling Industry in India.***
Keywords*: Direct Selling, Multi level Marketing, Products, Services, business*

I. INTRODUCTION

Today the business, which is a sale of goods or services, happens in multiple methods and models. A business model is a depiction of the basis of how a company through their products and services creates, delivers and captures value for itself as well as for its customers. Every business has two components in it, the first part deals with designing and manufacturing of their product while the second part deals with selling the product to the end user. In both these aspects customer requirements plays a vital role and finding the needs of the customer and offering the products or services plays a vital part in any business success. In the following part some of these business transaction models are explained and then a deep insight in to the direct selling business model is explained.

II. TRADITIONAL SALES MODEL

In the Traditional method of sale of goods and services, products are supplied to the consumers or customers from the manufacturer through their CFAs, regional distributors, wholesalers, retailers. Media playing a vital role in promoting the products and services. This is shown in Fig. 1. Celebrities are used as brand ambassadors for their products and services to advertise. In this sales model, except the so called consumers everybody gets profited. Only big business people can expand and cover various places where as small scale manufacturers and distributors have less reach even though they offer valuable and quality goods and services. The positive about this way of purchase for the consumer is they will have a touch and fell of products or services.

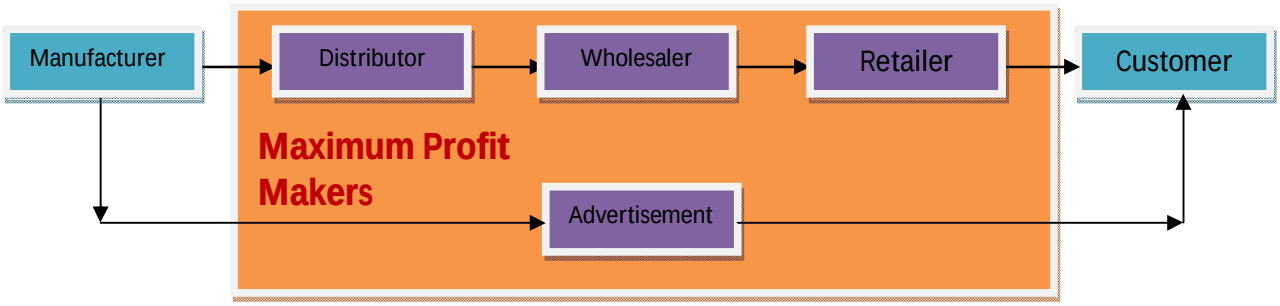

Fig 1.Conventional Sales Model

III. E-COMMERCE MODEL

With the invention of computers and Internet, an industry called e-commerce got evolved in which music to movies, books to vehicles, households to electronics to name a few are sold online. The e-commerce itself becomes an industry in which today's maximum purchase by the consumer happen. The real reason is the consumers getting benefitted in the form of discounts, cash backs, offers etc. from the e-retailer called e-tailor. The e-tailor operates in his web based platform, in which he connects the supplier with the consumer as depicted in Fig.2. The supplier can be a manufacturer, distributor or a retailer. This sales mode is a super hit across the globe because even a small scale manufacturer can sell his goods and services through a web based platform for the global community which is not possible for them to sell through the traditional shop sales. Consumers can understand the product through information's and compare similar products before purchasing which is a cost saving measure and also helps to find the right one & purchase the products and services by sitting in their homes. Digital and cashless transactions made it much easier.

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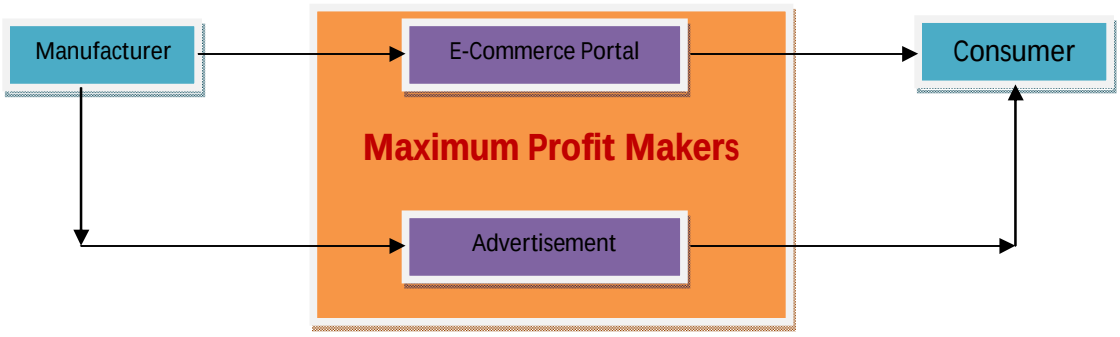

Fig 2. Ecommerce Model of Business Operations

IV. DIRECT SALES MODEL

The direct selling business is a form of business in which products and services are marketed directly to consumers. The products are directly sold to the consumer in a non-retail environment like a shop selling. The sales occur generally at a customer's location like home, work, or other location. This model eliminates several of the middlemen involved in product distribution, such as the brokers, regional distribution centers and wholesaler. Instead, products go from manufacturer to the consumer directly through a distributor or retailer who can also be a customer for those goods or services. This is depicted in Fig. 3. The direct selling channel differs from broader retail in an important way. It isn't only about getting great products and services into consumers' hands. It's also an avenue where entrepreneurial-minded people can work independently to build a business with low start-up and overhead costs [2]. "Direct Selling" means marketing, distribution and sale of goods or providing of services as a part of network of Direct Selling other than under a pyramid scheme. Provided that such sale of goods or services occurs otherwise than through a "permanent retail location" to the consumers, generally in their houses or at their workplace or through explanation and demonstration of such goods and services at a particular place." – defines the direct selling by FICCI [5]. The products and services sold through direct sales line are usually not available for purchase in typical retail environment, which means the products or services can be purchased only through a distributor or representative called the Business Owners. This model is otherwise called Word of Mouth referral, means if you like the product, you can refer to known circle of people. The product supply company operates their own portal for their distributors to buy products and to track their business growth and developments. This mode of purchase helps the consumers also to get quality products at affordable price and also to have complete information about the products. Only Quality products are sold otherwise the so called word of mouth referral fails in a bigger way. Customers are the brand ambassadors. That's why this business model makes the people feel more valuable as the referral comes from their network of known friends and relatives.

Fig 3. Direct Sales Business Model

V. HOW DOES DIRECT SELLING WORK?

In direct selling, products and services are sold in one to one presentations, group presentations, or by sharing the information catalogue of the products.

In a group presentation approach, the direct selling salesperson demonstrates products to a group of guests, invited by a host in whose home or other location the presentation takes place.

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By contrast, other direct sellers can explain and demonstrate the products they offer to consumers at a variety of locations like homes, cafeteria, and virtual meetings through internet or over the phone, at a time which is convenient for both of them.

Direct selling companies appoints company agents representing them or as resellers or distributors or in modern terms called Business owners of the products and services– the difference is distributors buy products and services from the company and sell it on to consumers making retail profits while company appointed agents who are employees of the company create sales of products and services for the company.

VI. THE BENEFITS OF DIRECT SELLING

Direct selling concept offers lots of benefits, one of the benefit is it offers people, an opportunity to earn income and develop a business on their own, especially to the customers and an economical and effective way for manufacturers to bring the products and services to the consumer market.

Direct selling offers a excellent distribution channel for manufacturers with quality and patented products for other reasons not suitable for shop selling.

The growth of the industry as seen over the year's shows direct selling business is a positive benefit to the countries economical growth, and serves clients with an expedient source of superior quality products and high value services.

Consumers gain from direct sales because of the simplicity and the before and after sales services it offers, including one to one demonstration and explanation of products and services, free home delivery, and satisfaction or money refund guarantee it offers on products and services.

For those who loves to have their own business, direct selling offers an alternative to traditional business or employment offering a flexible opportunity to enhance their income, or who don't wants to have a regular employment. Direct selling business opportunities can be developed into a gratifying career for those who achieve real success and choose to pursue their business even on a full time basis. Start-up costs in direct selling are very low when compared to the investment requirement for a traditional distribution business.

You can first understand the business, company profile and facts and the science behind their quality products and then you can get started with little or no inventory to have a startup.

Research shows some of the most popular reasons people choose direct selling are: [1]

A. Direct selling is a good way to own a business thus catering to gainful self employment, women empowerment & point of purchase convenience to consumers. [1]
B. Direct selling offers flexible work schedules[1]
C. Direct selling is a good way to earn extra income [1].
D. Earnings are in proportion to efforts.
E. Set your own goals and determine yourself how to reach them.
F. Independent business with very little or no capital investment.

VII. GROWTH IN THE DIRECT SELLING BUSINESS

The Growth in any direct selling business, similar to any other opportunities is proportional to the effort a business owner or a direct seller put in to the business. The companies have their own performance based marketing and rewards plan based on the sale of goods and services it offers. Higher the turnover, higher the rewards can be earned.

The company provides product and services information in the form of brochure, leaflets, catalogues, Audio and video Visuals and the training programmes offered through internet and online training libraries or in person through the company trainers. The sales can be carried out individually or with the help of sales team formed by the individual. Distributors who starts the business with a smaller income needs can do the sales personally and make smaller profits and if someone interested in creating bigger income with bigger needs can be benefitted by creating a network or team(s) of sales force. This in otherwise termed as Network marketing or Multi level Marketing or Referral marketing. Hence the growth in the direct selling business is limitless as the companies normally don't put restrictions in the number of sales team that can be formed. Here the payoffs are only for the sales happened in the team and not for forming the team. Hence it's legal and ethical business strategy offering a shift to the limitless entrepreneurship from the conventional employment or businesses.

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VIII. TRAINING SYSTEMS SUPPORTING THE INDUSTRY

Any business has its own rules, terms and systems for its proper growth and functioning. Similarly direct selling companies are also supported with training systems apart from the rules and regulations of the product supply company. These systems or units functions a self development university where the direct sellers can plug-in to learn and understand the business skills needed to create big business teams.

As for as the industry itself is considered most direct sellers are women who are housewives or people taking the opportunity in part time basis along with their full their employment. Generally the industry sees the lack of business skills needed and hence these coaching systems are very useful in showing the path of success.

Some of the skill sets taught by these coaching organisations are Mindset, personality development, people skills, sales skills, time management, relationship development, attitude, leadership skills, Dream building, goal setting and lot more intangible soft skills which are needed for any individual to grow as a human being. The most important aspect is all these skill sets are taught either by those who are highly successful in the direct selling businesses or those who understood the industry in and out but not part of it, offering a valuable coaching or Mentorship in the success process. The trainings are offered in multiple modes like associations, seminars, conferences, colloquiums, audio visuals and through the self development books from world famous authors and writers.

Each business systems is unique in the way it trains the people but offers a most valuable and comprehensive training for a direct seller to become a successful entrepreneur with real world skills and leadership potentials.

IX. IS MLM A BUSINESS OR A SCHEME – A MYTH...?

Multi level marketing concept is understood by the majority of the people as a money making scheme rather than a successful business model. Whenever the payoffs are made for the people you recruit, its certainly a scheme where there is no movement of products and services.

A genuine manufacturing unit having a national and international presence and offering quality products and services and create sales turnover using the MLM strategy to move their products through a contracted sales team or network is a good solid business unit. Also the money goes to people who contribute in the sales team as per their personnel contribution as well as their team's contribution. If A having 2 performing sales team gets less payoffs than B (part of A's sales team) having 3 or more performing sales teams. It's not who joined first, it's who create more sales through teams will be the earner in the group.

To determine the legitimacy of multilevel marketing organization and the opportunity, the following queries will clarify the doubts if arises. How is the money being made?

Are the products are of real quality to sell?

How much cost it involves for entry and any exit options available?

How much effort is required?

Is the enrollment or team development mandatory?

Facts and figures of the company

Is any coaching or training support systems available?

Is the company registered and following the law of the land?

Product returns guarantees and buy back modes available?

Most importantly consult with others who have had experiences with the company and its products and services

The answers to the many of the above queries will differentiate the direct selling business with the pyramid schemes and gives an idea about the legal and ethical practices of the company with which one wants to associate.

The industry's self regulating body IDSA has given detailed explanation on the key aspects and differences which can be found in http://idsa.co.in/differences-between-direct-selling-and-ponzi-pyramid-schemes.

X. DIRECT SELLING INDUSTRY IN INDIA

Globally Industry performance is recoded at $189,641 (USD millions), Up 1.6% in Constant 2017 USD. If you look at industry growth in India, its 1,513 million USD which is 7% Sales Change (YOY) in Constant 2017 USD [3]. In a 3-Year CAGR in Constant 2016 USD (2014-17) is 5.8% [3]. These figures show tremendous potential ahead for the industry as whole and hence for those who is looking forward to pursue their career in the industry. If you look at the percentage contribution in sales by the product category, Health and wellness products contributes to 53% followed by Personal care and cosmetics by 30% [4]. A FICCI report titled "Direct 2015: Direct Selling - Mapping the industry across Indian states" published in 2015 stated that the direct selling industry is projected to achieve a growth of Rs 645 billion by 2025. Accordingly, states need to frame guidelines conducive to the growth of the direct

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selling model in India[15]. Direct Selling, a global industry with 10.7 crore direct sellers The global Direct Selling industry generated a retail sales of US$ 18,356 crore in 2016 and provided part-time employment to 10.7 crore direct sellers worldwide. The top 10 direct selling markets are USA, China, Japan, Korea, Brazil, Germany, Mexico, France, Malaysia, and the UK. Together, these markets accounted for 78% of the global direct selling volume, and the largest 23 markets account for 93% of the global market share [5]. A recent report by FICCI-KPMG projected that retail sales in Direct Selling could reach Rs 64,500 crore by 2025 and provide self-employment opportunities to 1.8 crore Indians, 60% of which are women[5]. With the government policies on ease of doing businesses in the country, guidelines given by the govt. ministry for direct sellers [14], expecting govt. regulations for the industry to sustain, favorable global growth of the industry and preference of the consumers makes the direct selling industry more fertile towards a giant growth.

XI. CONCLUSION

As a conclusion it is to be understood registered direct selling companies with good performance track record and offering quality products and services are really offering a good scalable business opportunity for an ordinary people to become extraordinary through the entrepreneurship opportunities. But the growth and success is purely depends on the effort each individual puts in to his business. The industry performance shows the growth of the organisations operating and hence the preference of the consumers to the direct sales products and services. Direct selling will change the Entrepreneurship climate of India globally in the near future.

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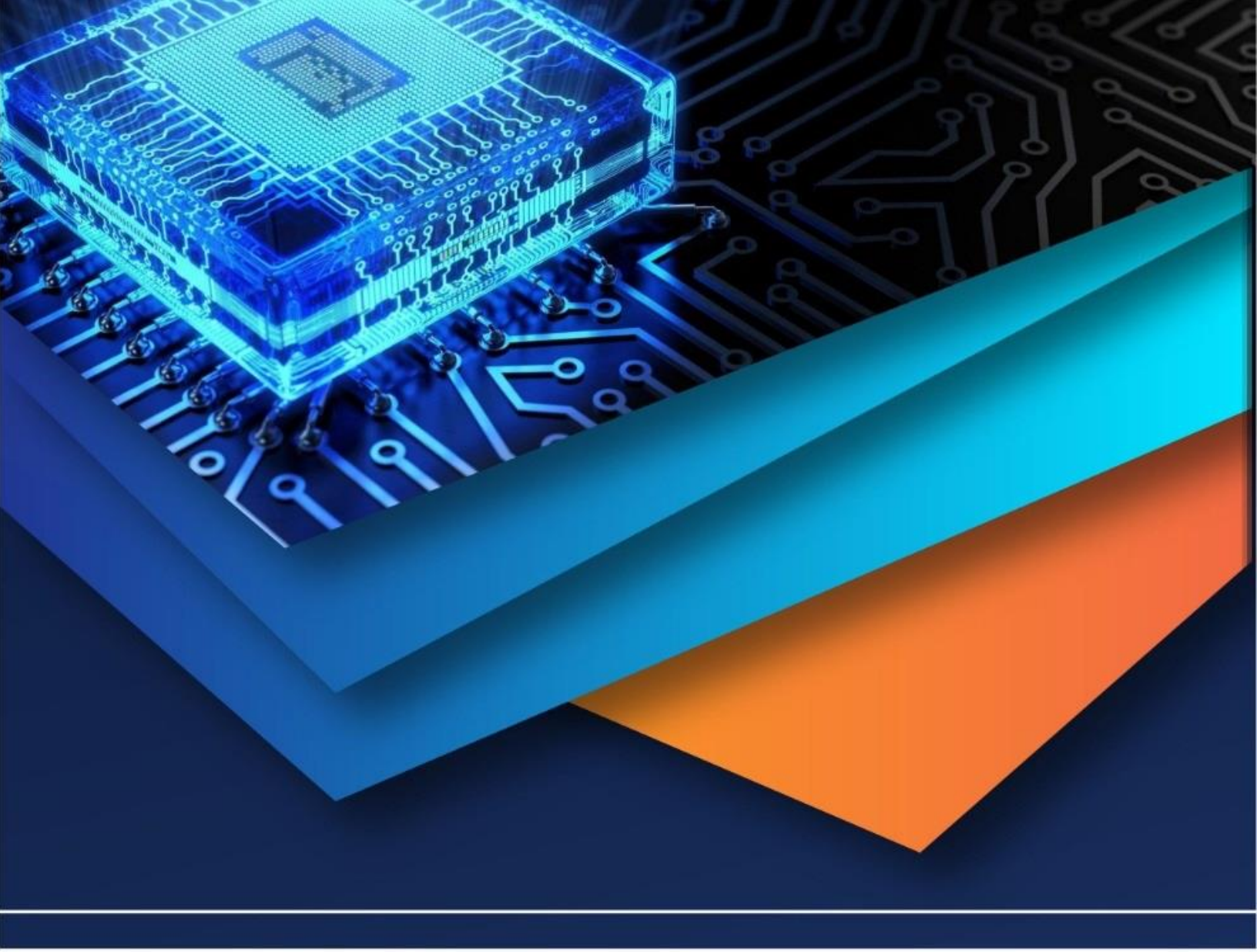

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