A Note on Direct Selling in Developing Economies

Once known as the ubiquitous foot soldier of American business, the Avon lady is no longer confined to ringing doorbells across the United States. These days, she powders noses in Brazil’s favelas, perfumes the jungles of the Amazon, and adds a little eye shadow to the (former) communist world. As Avon shows, direct selling can often reach further and faster than any other sales channel. Even more, it seems to thrive in otherwise impenetrable business environments. What enables direct selling to work, and why don’t we see more of it?

Direct selling, according to the World Federation of Direct Selling Associations, is “the sale of a consumer product or service, person-to-person, away from a fixed retail location.” In most cases, salespeople are self-employed, and manage all aspects of their own direct selling business. In the United States, where strong infrastructure favors sales through retail stores or online, only about one dollar out of every million of retail sales are spent through direct sales channels. Developing economies, in contrast, often favor direct selling. When the formal retail environment is weak and paid employment well under 5% of the population, direct selling fills the distribution gap while offering substantial employment opportunity. Tupperware derives 75-85% of its revenues from outside the USA and Avon’s CEO calls the emerging markets “Avon Heaven.” This note surveys the informal and formal direct selling sectors with a focus on how they engage and serve people at the base of the socio-economic pyramid.

Informal Direct Selling

Informal direct selling, in which individuals independent of any formal organization purchase products and resell them at higher prices, is among the most common and intuitive ways that consumer products are distributed across the developing world. In fact, informal trade represents over half of all trade GDP and over 90% of employment in several developing countries (see Exhibit 2). Drinking water, vegetables, apparel, magazines, DVDs, and cosmetics are all very common products for informal direct sellers. While specific practices vary widely from region to region and product to product, like markets show common tendencies. For example, the nature and dynamic of direct sales tends to vary greatly between urban and rural environments, as illustrated below.

Urban: Pre-packaged drinking water is a favorite among informal direct sellers in urban areas of Ghana (see Exhibit 4). Distributors are frequently young women, primarily from rural backgrounds, looking for work in the city. Direct selling is an attractive option as a first urban job as there is no pre-qualification or application process for the job. To start, the direct seller buys, on credit, a large plastic bag containing around thirty 300mL-500mL sachets of water. She then proceeds to sell individual...
sachets at a markup, usually to the passengers of vehicles on the city’s gridlocked streets. Wholesalers buy each sachet around $0.02 each, and resell them to individual vendors around $0.03. The direct seller then retails them at $0.04 to $0.06 per sachet.\textsuperscript{11} Despite the high margins customers on the street pay for convenient access to small quantities of water, the net profit on each sachet is so small that vendors have to sell significant volumes in order to make much money. In fact, only the most successful sellers are consistently able to cover the fixed costs of their business—their own food clothing and shelter—and the interest on the credit extended to them by the wholesaler. While the Ghanaian Ministry of Finance has officially set an interest rate cap on microfinance loans at 27\% annually across Ghana,\textsuperscript{12} daily interest rates among wholesalers are unregulated and vary widely. With limited financial literacy, the true cost of capital may not be evident to the direct seller until the merchandise is sold and it is time to repay. For some, the initial experience in direct selling may be a stepping stone to better options, but at around one penny of profit per transaction, few sellers find their way out of the bottom quintile of income in Ghana (see \textbf{Exhibit 3}). The ease of entry and difficulty of exiting the business can trap these sellers, increasing competition such that five or more individuals may sell the identical product on popular street corners. The pattern repeats itself in several other geographies and product areas.

\textbf{Rural}: The informal direct selling of toiletries in rural areas of Ghana provides a good contrast. Distributors are frequently middle aged women from the local community. Rather than carrying a single product, they typically have a more diverse product mix including hair care, skin care, and toothpaste that are not easily available in the local village. The direct seller buys them in the nearest town and brings them back, usually via bus. Her margin comes from customers who are willing to pay a premium over in-store retail pricing in order avoid the costs of making a trip to town. Similar to ice cream trucks in the US, rural direct sellers typically ring a bell as they walk through a customer village and wait for customers to come out (see \textbf{Exhibit 5}). When customers appear, the transaction can usually proceed at a leisurely pace, including an exchange of greetings and small talk prior to purchase. The increased transaction time (relative to their urban counterparts working in traffic) enables rural direct sellers to engage in a more persuasive selling process, sell a broader range of higher priced items, and build relationships for future business. The result is a more sustainable direct selling business. \textbf{Table A} below summarizes the differences between urban and rural informal channels.

\textbf{Table A} The Informal Direct Selling Space

<table>
<thead>
<tr>
<th></th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales Environment</td>
<td>Primarily Street Traffic</td>
<td>Primarily door-to-door</td>
</tr>
<tr>
<td>Demographic of Customer</td>
<td>Diverse but easy to segment based on vehicle type. (Bus vs. private car)</td>
<td>Relatively homogeneous</td>
</tr>
<tr>
<td>Demographic of Seller</td>
<td>Primarily rural in origin. First job in the city.</td>
<td>Primarily from the local community.</td>
</tr>
<tr>
<td>Product Mix</td>
<td>Single product lines. More based on convenience than scarcity. Typically impulse buys.</td>
<td>Broader product mix. Combination of convenience and scarcity, but transaction times are longer so the sell can be more persuasive.</td>
</tr>
<tr>
<td>Game Theory</td>
<td>Single transaction. Always the last round. Common to receive incorrect change or no change as traffic departs.</td>
<td>Building a relationship, anticipating future rounds.</td>
</tr>
</tbody>
</table>

Source: Casewriters.
Regardless of whether they work in urban or rural settings, individual informal direct sellers are limited in their scope and prospects, as alone they do not enjoy the advantages and support they might have as part of a larger economic unit, such as collective purchasing power, marketing, customer brand awareness, access to higher value products or more sophisticated, scalable sales practices. Despite these limitations, the existence of informal direct sellers affirms market demand (of consumers for products and of sellers for employment) that as yet has not been met via formal channels.

Formal Direct Selling

In formal direct selling, a host company offers top-level organization to aggregate and support the efforts of direct sellers. Engaging over 58 million people around the world (see Exhibit 6), formal direct selling is advantageous to the company, the distributor, and the customer.

The Company

No other distribution channel offers the opportunity to harness local human resources and deploy them faster or in greater numbers. Those local resources can also offer a means to reach markets that are hard to access via other channels. As such, direct selling appeals to companies as a unique way to expand their market, learn from their customers, and build a massive sales force. These benefits, however, come at a cost. Management of a direct sales force poses significant challenges for recruitment, training, remote monitoring/control and retention, all of which are critical for success in developing an effective direct selling channel.

Expanding the Market

Companies can use direct sales to extend their markets in multiple ways. In some cases, the enterprise starts with a product and develops the channel to suit that product. In other cases, it starts with the channel and uses it for ongoing product development.

Developing the channel to suit the product: In the 1980’s, Eureka Forbes Limited (EFL) sought to sell vacuum cleaners in India’s largest cities. However, most households that could afford vacuum cleaners could also afford maid service. Since most maids cleaned with brooms, the target buyer was not the end user. This made vacuum cleaners extremely difficult to sell. Maids would never come into vacuum cleaner show rooms, and customers would be uninterested in going out to shop for expensive, high tech cleaning products for their maids. Direct sales provided a compelling opportunity to demonstrate the product within the home, where both the maid and the customer could see the product operate at the same time. By 2004, EFL was both India’s largest vacuum cleaner company and among the country’s largest direct selling organizations. In that year they sold over 150,000 units and enjoyed a roughly 70% market share.¹³

Beyond in-situ demonstrations, one-on-one direct selling can also provide a unique channel for more private products. Life insurance and funeral insurance have been old favorites of the industry, as potential customers are reluctant to make a special trip to a retailer in order to ponder their own death.¹⁴ Likewise, the direct sales environment can lend itself well to items of a personal nature. Brazil’s largest lingerie maker, De Millus, employs 100,000 female direct sellers, who rang up 75% of the company’s $77 million in revenue through one-on-one sales in 2002.¹⁵

Selling to a group - usually in the form of a party at the direct seller’s home - can similarly reveal hidden buyers. Jonathan Frenzen and Harry Davis in a 1990 study of Tupperware parties determined that a guest’s affinity for their host was twice as important as their affinity for the product in making
a buying decision. In this case, direct selling may actually be creating buyers who would not otherwise exist.

**Using the channel for product development:** Perhaps the most famous direct selling organization in the world, Avon Products, started with a sales channel, from which it developed its products. In the 1880’s, sixteen year old David H. McConnell took a job selling books door-to-door to rural American housewives. His target demographic made for good customers, as they were likely to be home, and infrequently able to visit bookstores. In an effort to entice greater book sales, McConnell began offering small samples of perfume as a “door opener.” When he realized that his customers were more interested in his sample perfumes than his books, he founded the California Perfume Company, which later became Avon. Avon has continued to rely on McConnell’s initial insight, and has studied the channel to develop suitable products. Over the last 121 years, Avon has expanded to become the world’s largest direct seller of beauty products with nearly $10 billion in sales across 114 countries.

In fact, the entire Avon model is built to optimize experimentation with different products in the channel. Every two weeks, Avon releases a new ~200 page catalog (known as a “campaign”) with a few thousand product offerings. Although beauty products remain at the core of the product mix, substantial portions of the catalog can be devoted to children’s toys, sleepwear, Christmas ornaments, or other seasonal offerings etc. The rapid cycle not only allows Avon to quickly adjust its product mix according to demand, but the constant churn also boosted Avon sales 70% over catalogs with greater longevity. With such broad reach, Avon now lends its channel out to other companies, and generates incremental earnings in the process. In 1997, Mattel contracted the company to distribute Barbie in China. Other direct selling companies have been quick to follow this model. Amway distributes Rubbermaid products and Waterford Crystal. Shaklee distributes AT&T long distance calling plans. Once the channel is built, direct sellers seem keen to try new products.

Successful experimentation, however, requires detailed feedback. In addition to sales figures, the representatives themselves can be an important source of market intelligence. Unlike other sales channels, direct selling ensures that a representative of the company is present at every single transaction. Sales representatives are therefore able to probe and understand the customer’s decision making process and report back to their “upline” colleagues and ultimately the procurement department of the company. This unmatched visibility into the consumer’s decision making process can help direct sellers to revise their product lines extremely quickly.

In some cases, direct selling can become the dominant channel, so companies will choose direct selling just to keep up. In Brazil in particular, 60% of perfume, 75% of eye makeup and 80% of lipstick are all sold through direct channels. More broadly, in Latin America, direct sales account for roughly 30% of all cosmetics.

**Building the Sales Force**

Avon’s 5.3 million active distributors are in aggregate nearly three times larger than Wal-Mart’s entire employee base, yet Avon must constantly recruit new representatives. In some markets, Avon loses around 60% of its representatives annually. But Avon is not alone, attrition characterizes the entire direct selling industry, with some companies experiencing up to 100% sales force turnover annually. The largest direct sellers replenish their ranks both through their recruiting rhetoric and the structure of their compensation plans.

**Recruiting Rhetoric:** Direct selling naturally appeals to the goals and aspirations of the underemployed. In recruiting sales representatives, an Avon recruiter may point out that annual...
incomes over $100,000 are possible, underscoring the point with supporting material like a DVD entitled “The Rich & Famous of Avon.” However, the company’s 2006 Annual report indicates that its 446,000 active representatives buy approximately $5,726 of Avon products each. At an average markup of 25%, the annual average gross margins for Avon representatives would be closer to $1,431.25 Forever Living Products, a direct seller of nutritional supplements in various countries including several emerging markets, makes generous use of mansions and sports cars in its promotional photography. While these approaches may succeed in attracting representatives, the promise of wealth and luxury rarely retains representatives once they realize the thousands of transactions it would take to meet their financial goals.

Jorge Vergara, CEO of the largest Mexican Direct Seller, Omnilife, departs from this pattern. “We don’t sell our customers visions of Beverly Hills and a Mercedes in every driveway,” he explains.27 Instead, Vergara has developed an elaborate process for recruitment and retention which appeals to candidates’ emotional impulses, and leverages the momentum of group engagement. At the company’s recruiting drives, a charismatic speaker typically comes to the front of the room to sing the praises of Omnilife soft drinks that cure cancer or chewing gum that helps the crippled to walk again.28 Speakers make liberal use of call and response techniques, and even direct appeals to God. As the fervor builds, audience members spontaneously testify to the miraculous benefits of the product. At the conclusion of the meeting, prospective distributors who are ready to join the company are welcomed on stage to the applause of their peers.29 Elements of this pattern are replicated by Amway in Thailand30 and Forever Living in Ghana. Tupperware even “baptizes” its top distributors at an artificial lake near the company headquarters.31

**Compensation Plan Structure:** Financial incentives can play a significant role in both recruitment and retention. Direct selling organizations roughly fall into two categories: single level, and multilevel marketers. In the single level structure, direct sellers earn a margin on each product they resell. Margins can go as high as 50%, especially during the first few sales cycles for new recruits. In a purely single level system, however, there are not strong incentives for existing sellers to help grow the distributor base. In fact, an individual sales representative may prefer not to introduce friends to the scheme since they could become competition. Eureka Forbes overcame this challenge by offering representatives a modest payment when friends they refer join the company. At the same time, the company aggressively recruits new salespeople using flyers, billboards, and posters promoting its “Own Your Own Bike Scheme.” Under the scheme, new recruits can get a motorcycle with a down payment of 25%. EFL covers the remainder in an interest free loan, to be repaid through product sales. By providing this status symbol up front, EFL attracts talent, then retains it through the lease obligation. With this combined approach, EFL has become one of India’s largest direct sellers.

Multilevel marketing (MLM) is far more common (see Exhibit 7). In contrast to single level marketing, MLM intensifies the financial reward of recruiting. In MLM, the distributor earns a margin not only for her own sales, but also for a percentage of her “downline sales,” the sales that are made by the representatives she has recruited. Avon representatives, for example, can earn from 1-7% of their downline’s orders, and are thus willing to convert some customers into representatives.

Depending on the specific structure of the MLM, these incentives can make recruiting new distributors equal to or more compelling than selling products to actual end-users. Consider the case of American company Forever Living Products (FLP). FLP claims to sell $2 billion in aloe vera based nutritional supplements via 7.5 million distributors in 105 countries.32 The distributor margin is high (43%) but sales to the consuming market are challenging. In Ghana, for example, FLP’s staple product, Aloe Gel, retails for around $25 per 1 liter bottle. This is expensive relative to Ghana’s annual GDP/capita of $482, roughly $1.32 per day.33 However, the MLM structure creates an incentive for representatives to recruit new distributors almost regardless of the actual sales to end.
users. Distributors earn between 5% and 18% of their downline orders, including the starter kit required by a recruited sales representative to start operations, priced at roughly $469. Accordingly, just by enrolling a new salesperson, the distributor immediately earns a minimum of (5% x $469 =) $23.45, more than he could earn by selling a $25 jug of Aloe Gel. In addition, the distributor continues to receive a commission on all the future sales of the new salesperson. This compensation structure applies equally to the new salesperson, who has the same incentive to repeat the same behavior, thus perpetuating the pyramid.

In cases like FLP, the MLM compensation structure drives the sales representatives’ focus from product sales to recruitment. At the extreme, it renders the specifics of the product line itself almost irrelevant as the product comes to serve primarily as a recruiting tool rather than the core rationale of the enterprise.

It is important to note that not all products are prone to such pyramid schemes. Mundane products do not lend themselves to the sales rhetoric required to recruit. If the product is too familiar, the prospective recruit will find it more difficult to believe the potential for superior returns. Indeed, it appears that pyramid MLM structures are more often built on new products with no prior established market value. These products are more amenable to being surrounded by a futuristic aura, often aided by a Western origin and a sense of technology reinforced by technical jargon. Often, the language used overlaps considerably with that of the medical profession, elevating the seller’s status and providing some basic defense against potential naysayers. Unfamiliar terminology often supports the promise of unexpectedly desirable results, sustaining sales and recruitment well beyond what would be possible with a commodity product.

The Distributor

Direct selling is attractive to distributors for three main reasons. It boosts their income, refines their identity, and strengthens their social connection.

Income

Direct selling organizations like Avon offer representatives economies of scope and scale they could never hope to achieve as independent micro entrepreneurs. Each catalog they carry holds a variety of products rivaled only by western retail superstores, and many direct sellers choose to carry multiple catalogs. In Brazil, for example, a large percentage of Avon representatives also carry catalogs from Natura, a Brazilian competitor. A broader product array can improve the likelihood of a sale, and commissions schedules are designed to reward higher sales volumes. The more they sell, often the higher their percent margin becomes. The portfolio of catalogs can also be used to segment the market for greater sales potential. When ringing an upscale Sao Paolo doorbell, representatives often present Natura products to the lady of the house, and Avon products to the maid.

Refining Identity

Formal direct selling also offers distributors an opportunity to refine their own identity via affiliation. The host company’s catalogs, billboards, and promotional materials are often just as much about the purveyor as the product. The Avon Lady, the Eureka Forbes’ EuroChamp, and the Amway distributor each have a carefully cultivated identity, beginning with his or her title. Amway is a contraction of “American Way.” The co-founder chose this name because “the American way of private ownership and free enterprise is the best way.” The EuroChamp similarly evokes a western identity with the “Euro” prefix while telegraphing his success as a “Champ.”
Direct selling companies also invest in the public image of its representatives. In Thailand, Avon makes extensive use of printed images of the Avon Lady in order to carve out a space between problematic stereotypes of commercial women. In order to effectively recruit and sell, Avon must neither appear to be the “independent and rough market woman selling in unruly street markets, nor the selfish, autonomous career woman pursuing her own desires.” Nearly universally, therefore, Avon uses images of representatives spending time with their families; using the Avon business to provide for them. Avon then backs up this branding by leading recruits through a somewhat transformational experience, coaching them through how to act and dress the part. “At Avon’s sales center in Moscow, training new representatives can seem a little like a pink-tinted Parris Island, the Marine training base in South Carolina. The novices huddle in pained shyness, their shabby clothes, florid makeup and awkward body language clashing with the sleek corporate look of company veterans. Within weeks, though, they emerge radiating the trademark poise of professional Avon ladies.” The Avon trainer in charge explained, “They come to us like mice, and we turn them into firebirds.”

EFL’s CEO, Suresh Goklaney, similarly emphasizes transformation through training. “Our salesmen come in as boys and turn into men,” he explains. In addition to technical training on the product, EFL coaches its EuroChamps to wear shoes, shave properly, and wear a white shirt with a dark tie. Once selling EFL products, these Eurochamps are physically transformed into clean-cut representatives of modernity and the western world.

Beyond the appearances, direct selling can offer sellers a legitimized conduit for standing up to social constraints, and empowering others to do the same. Hindustan Lever’s Project Shakti erodes the stigma of single parenthood with a quote from its direct sellers on its promotional materials: “When my husband left me I had nothing. Today everyone knows me. I am someone.” Similarly, Amway recruiters in Bangkok tell an almost scripted narrative of how they overcame obstacles to their success, including resistance from their own parents. These testimonials signal the speakers’ departures from expected behaviors of Indian divorcees (who may otherwise suffer an unrecoverable decline in social status) and Thai children (who may otherwise unquestioningly obey their parents). In each case, the speaker uses her newfound professional identity to break from her social constraints, and to simultaneously locate a social support group of peers in similar situations.

**Strengthening Social Connection**

Nearly all direct sellers begin their business with a core customer base composed of friends and family. In communities where families and social networks can be both relatively large and geographically concentrated, direct selling thrives. As the most successful direct sellers build their confidence, they also quickly expand their customer base to include friends of friends and beyond. Many direct sellers note that building their social circles is one of the key benefits of their occupation. Campaign-based companies like Avon facilitate and legitimize repeated, extended social interaction during work hours by releasing a new catalog every two weeks. The new product offerings create an excuse to revisit and maintain customer and social relationships year round.

Direct selling can also build powerful social networks within the organization. EFL convenes the EuroChamps around 7:00 AM at a tea stall near the day’s selling territory. At the meeting, they plan the day and close the meetings with a “rousing chorus of the EuroChamps anthem sung by the entire group.” Throughout the day, the sellers reconvene to compare experiences and encourage one another. Although each exchange is ostensibly work related, the EuroChamps develop a powerful camaraderie in the field. While this is more structured than most other direct selling organizations, many of the same principles hold true. Individual distributors build friendships over their common experiences and aspirations surrounding the product. Like most direct selling companies, EFL also
recognizes elite status among distributors through newsletters full of photos of their star sellers. These photos can be surprisingly potent sources of pride and induce a powerful sense of belonging.

**The Consumer**

Critics may argue that consumers do not benefit from becoming target customers of multinational corporations, whether or not direct selling is used. In some cases, that is true. In many cases, however, direct selling opens up options for consumers that never existed before. As Prahalad and Hammond point out, “if the poor can’t participate in global markets, they can’t benefit from them either.” Access to new products can both yield improved quality of life, as well as bring the dignity of choice to people who have few alternatives. Prahalad goes so far as to say that lack of choice almost defines poverty.

Ultimately, the proof that consumers themselves value access to items made available by direct sellers lies in their ongoing purchases.

These benefits of direct selling become more dramatic when the product sold has a positive externality, like health and hygiene products. The more people in a community who use soap, for example, the less diarrheal disease will spread. Even non-soap users will benefit from the behaviors of soap users. Direct sellers can play a powerful role in improving hygiene standards in rural areas. Fast moving consumer goods giant (FMCG), Hindustan Lever Limited (HLL)’s Project Shakti engages “Shakti Ammas” (roughly translated as “Power Mothers”) to sell HLL products like soap, shampoo, and toothpaste door-to-door in 15 Indian states. Shakti Ammas earn only 8% retail margins on very low cost FMCGs, with monthly earnings averaging around Rs1000 ($25), little more than the $23 per month earned on average by India’s poorest 10%. Despite these low wages, HLL has deployed nearly 40,000 Shakti Ammas across India, volume which suggests that the initiative is working for the company, distributors and consumers.

**Direct Selling for Social Good**

The pervasiveness and the power of direct selling models in developing countries, and their strength particularly in rural settings, makes it natural to ask whether it is possible to harness this distribution system in furtherance of social goals. If instead of cosmetics or aloe gel, the merchandise delivered were health products, superior seeds or more efficient water pumps, and distribution could be accomplished on a fully commercial basis, the potential positive impact for society is clear.

In some cases, the information a well-trained direct seller brings with him or her is even more powerful than the product (s)he sells. Reaching beyond TV, print, or radio, local direct sellers can often gain unparalleled access to the eyes and ears of their peers with powerful public health messages.

BRAC, possibly the world’s largest NGO, was able to overcome several of Shakti Vani’s shortcomings through its own door-to-door programs in Bangladesh. From 1980-1990, BRAC deployed door-to-door representatives to 12 million Bangladeshi homes in order to educate mothers on how to make oral rehydration salts (ORS) for children suffering from diarrhea. Unlike most direct
sellers, the educators received a very modest salary, but like direct sellers, they received a substantial commission for effectively “selling” their message. Several months after the initial encounter, BRAC sent a follow up representative to the household to quiz the customer on ORS. If the customer was able to make ORS correctly, the initial representative would be paid a commission. High performing representatives could more than double their monthly income through effectively transmitting this information door-to-door.  

By design, BRAC’s initiative was not intended to incorporate the commercial element of sales. Nevertheless, this raises the question of whether a mixture of the Shakti and BRAC models could have the greatest impact on consumers. The self-sustainability of the Shakti model may be able to support the rigor of the BRAC model. Over the ten years of the BRAC program, the total cost per household visit was roughly $0.75, likely within the buying power of the consumer household.

The effectiveness of the seller as educator, however, hinges on the quality of the seller’s training. High quality training, in turn, depends on the company and the seller’s ability to offset training costs with sales. Moving direct sellers and their host companies up the value chain to higher value, information-rich products could be one avenue to achieve higher social impact. This is most feasible in a formal direct selling channel with low enough turnover for the company and/or seller to recoup their training costs. Formal channels with persuasive selling techniques hold the greatest potential as conduits of healthcare education, but also present the greatest challenges (see Table B).

Table B  The Direct Selling Space

<table>
<thead>
<tr>
<th>Passive Sell</th>
<th>Persuasive Sell</th>
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<tbody>
<tr>
<td><strong>Formal</strong></td>
<td></td>
</tr>
<tr>
<td>Avon Products</td>
<td>Omnilife</td>
</tr>
<tr>
<td></td>
<td>Herbalife</td>
</tr>
<tr>
<td></td>
<td>Forever Living Products</td>
</tr>
<tr>
<td><strong>Informal</strong></td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>Reading Glasses</td>
</tr>
<tr>
<td>Sunglasses</td>
<td>Beauty Products</td>
</tr>
<tr>
<td>Vegetables</td>
<td>Traditional Medicines</td>
</tr>
<tr>
<td>DVDs</td>
<td></td>
</tr>
<tr>
<td>Phone Cards</td>
<td></td>
</tr>
<tr>
<td>Chiclets</td>
<td></td>
</tr>
</tbody>
</table>

Source: Casewriters.

The investment in these formal, persuasive channels is higher than the alternatives. Higher investment also requires higher returns. It is no wonder, therefore, that this space is often crowded with extremely high margin products with quasi-medical claims like nutritional supplements. Might such channels be relevant for distribution of legitimate pharmaceuticals? Companies would face at least two hurdles. The first would be regulatory approval for a minimally trained, fast-churning distributor base to dispense medications for potentially serious symptoms. The second would be the company’s ability to monitor and evaluate its sellers’ claims. Direct selling companies have a tenuous relationship with their sellers due to sellers’ independence, great geographic distances, and high turnover. While Avon may not need to carefully monitor how its representatives sell lipstick, a drug company would certainly need to closely control how it sells antibiotics.

EFL offers a potential solution that may align financial incentives with proper sales processes. Rather than earning commissions on sales alone, EFL has experimented with a point system wherein distributors are compensated for specific elements of their sales process. EuroChamps earn points for each cold call, each product demo, each team meeting, and each sale. By shifting the incentives away
from sales alone, EFL uses financial rewards to standardize the behaviors of the EuroChamps, and by extension, protects the EuroChamps brand.

While models are still evolving, modern versions of direct selling hold the potential to improve lives across the world’s developing economies as the range of products begins to include those that have high social value, such as medicines, hygienic items and communications. Some of these organizations will learn to replicate the success of the Avon experience. Incorporating the fact that there will always be a relatively high turnover among sellers, these companies will succeed because they will learn to master recruitment and training to ensure a consistently strong sales force. A relatively simple product with a short sales cycle will help rookie and veteran sellers alike to earn their keep. A varied and constantly refreshed product line will help ensure recurrent business. When all these pieces are aligned, formal direct selling is likely to continue reaching further down the socio-economic pyramid and bring with it the potential to benefit all those involved: the companies, the sales people, and the customers.
**Exhibit 1**  Paid Employment in Selected Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Paid Employees</th>
<th>Population</th>
<th>% Paid</th>
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<tbody>
<tr>
<td>Tanzania (2001)</td>
<td>1.159</td>
<td>38</td>
<td>3%</td>
</tr>
<tr>
<td>Mexico (2006)</td>
<td>27.592</td>
<td>109</td>
<td>25%</td>
</tr>
<tr>
<td>India (2005)</td>
<td>26.458</td>
<td>1120</td>
<td>2%</td>
</tr>
<tr>
<td>USA (2005)</td>
<td>133.398</td>
<td>303</td>
<td>44%</td>
</tr>
<tr>
<td>Brazil (2004)</td>
<td>53.172</td>
<td>184</td>
<td>29%</td>
</tr>
</tbody>
</table>


**Exhibit 2**  Informal Sector as a Percentage of Total Trade in Selected Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Informal Sector as a Percentage of Total trade employment</th>
<th>Total Trade GDP</th>
<th>Female informal traders as a percentage of Total trade employment</th>
<th>Total Trade GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>99.1</td>
<td>69.8</td>
<td>92.2</td>
<td>64.3</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>94.7</td>
<td>45.7</td>
<td>65.9</td>
<td>30.1</td>
</tr>
<tr>
<td>Chad</td>
<td>99.2</td>
<td>66.7</td>
<td>61.8</td>
<td>41.2</td>
</tr>
<tr>
<td>Kenya</td>
<td>84.9</td>
<td>61.5</td>
<td>50.2</td>
<td>27.3</td>
</tr>
<tr>
<td>Mali</td>
<td>98.1</td>
<td>56.7</td>
<td>81.3</td>
<td>46.1</td>
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<tr>
<td>Tunisia</td>
<td>87.6</td>
<td>55.6</td>
<td>7.9</td>
<td>4.4</td>
</tr>
<tr>
<td>India</td>
<td>96.4</td>
<td>90.0</td>
<td>12.4</td>
<td>11.2</td>
</tr>
<tr>
<td>Indonesia</td>
<td>93.0</td>
<td>77.2</td>
<td>49.3</td>
<td>38.0</td>
</tr>
<tr>
<td>Philippines</td>
<td>73.1</td>
<td>52.3</td>
<td>72.0</td>
<td>21.6</td>
</tr>
</tbody>
</table>


**Exhibit 3**  Income by Quintile in Ghana

<table>
<thead>
<tr>
<th>Quintile</th>
<th>Mean Annual Household Income</th>
<th>Mean Annual Per Capita Income</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Annual Cedi</td>
<td>Annual USD</td>
</tr>
<tr>
<td>1</td>
<td>979,000</td>
<td>$423.08</td>
</tr>
<tr>
<td>2</td>
<td>1,770,000</td>
<td>$764.91</td>
</tr>
<tr>
<td>3</td>
<td>2,009,000</td>
<td>$868.19</td>
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<tr>
<td>4</td>
<td>2,673,000</td>
<td>$1,155.14</td>
</tr>
<tr>
<td>5</td>
<td>3,025,000</td>
<td>$1,307.26</td>
</tr>
</tbody>
</table>

Source: Adapted from Ghana Living Standards Survey IV, 1998/99.
Exhibit 4  Urban Direct Sellers at Work

Informal direct sellers crowd around a bus in Tanzania. Source: Joel Segre.


Right: Bismarck, a Ghanaian direct seller of sunglasses waits for customers in Accra. Since sunglasses require a slightly longer selling cycle, Bismarck works in parking lots. Note that he also sells reading glasses, which he “prescribes” by having prospective customers read from a pocket bible he carries. Source: Joel Segre.
Exhibit 5  Rural Direct Sellers at Work

A rural direct seller of beauty care products. Note the bell in her right hand to attract attention. Fast moving goods are kept in the bucket in her left hand, while the remainder of her inventory is on her head. Source: Joel Segre.

Direct sales of traditional Maasai medicine in Tanzania. This seller has a “cure” for just about everything, so long as customers give him sufficient time to persuade them. Source: Joel Segre.
Exhibit 6  Worldwide Formal Direct Sales

Exhibit 7  Multilevel vs. Single Level Compensation Structure Among American Direct Selling Organizations


End Notes


6 http://www.dsa.org/aboutselling/what/.

7 http://quickfacts.census.gov/qfd/states/00000.html.


15 Jordan.


19 Avon Catalog, Campaign 22. 2007.

20 Klepacki, 17.


22 Jordan.


28 Friedland.


34 Forever Living Products Marketing Plan 2007.


37 Stanley.


39 Narayandas, p. 8.


41 Wilson, 80.

42 Narayandas, 5.

43 Prahalad, 35.

44 Prahalad, 36.


48 Rangan, 14.


50 Chowdhury, 59