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Can direct selling make a comeback?

It's a £2.7bn industry, but there's little information to be found on the direct selling model. As more food and drink companies start to use it, others warn it's exploitative. So what's the truth?

Megan Tatum

It's the biggest industry nobody talks about. That's how one senior executive sums up the world's \$192bn direct selling industry. And he isn't far off the mark.

According to the World Federation of Direct Selling Association (WFDSA), there are now 53 million people across 170 countries that have signed up to sell products independently to friends, family, neighbours or anyone they can.

In the UK the channel is worth £2.67bn annually, according to the UK's Direct Selling Association (DSA), with half a million people now acting as independent distributors. What's more, the channel has seen 27% year-on-year growth, with a third (31%) of the DSA's members reporting that 2019 was a record year.

Far from low-key neighbourhood parties selling a few pots of skin cream or sex toys, direct sales are now a credible challenger to traditional retail. One that is increasingly attracting attention from food and drink companies, with distributors selling everything from supplements to juices, coffee and wine (see p32).

Yet the industry keeps a curiously low profile. Other than big hitters such as Avon and The Body Shop, most of us will probably never have heard of many multi-

million-pound brands that are sold direct. Some have tens of thousands of people on their books and claim to have made more than a handful very wealthy indeed.

Endeavouring to find out more for this article has also proved tricky, with multiple emails to these brands going unanswered and scant information online.

This anonymity feels inextricably linked to the controversy that swirls around it. It is, say its critics, a sector that targets the vulnerable with promises of million-pound returns, leaves distributors in crippling ↪

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debt and even holds members in a cultish grip. So what's the truth? That a clear definition of the business model is hard to pin down only demonstrates its divisiveness. Take the name. Those that champion the business model refer to it as direct selling. Those on the other side of the fence use the term multilevel marketing (MLM) or pyramid selling. The former gives the impression of a simple sales transaction initiated by a 'distributor', 'consultant' or 'contractor', while the latter acknowledges that money is earned not only through buying and selling product, but through recruiting new members and building teams to work under them.

Tupperwaretastic

It's a model that dates all the way back to the 1960s in the UK, where Tupperware parties became all the rage – gatherings ostensibly held by suburban housewives chatting animatedly about the latest plastic lunchboxes over a glass of liebfraumilch.

In later decades, the popularity of the model appeared to wane, synonymous only with a few select names such as Avon, The Body Shop and Ann Summers here in the UK.

But in the past few years it has seen a sort of renaissance, says Susannah Schofield, director of DSA UK. Why? "It's a great way to earn a living that's totally flexible," she says. "Look at generation Z and the next tranche of people coming into work. They don't want to be tied to desks from nine to five.

"The explosion of social media has allowed us to see so much more – we're so impatient now and want so much access to so many different things. This model means you can sell and do a whole myriad of things, and in different countries too as the business moves with you. The freedom that [offers] the next generation has absolutely driven the renaissance of the business model."

There is good money to be made too, insists Alex Grapov, chief sales officer at Kannaway, a US direct selling business that began recruiting distributors for its CBD wellness products in the UK and Europe a year ago. "Any average person can come in and make from \$500 per month, and we have multiple people making over \$1m."

There are also solid business reasons for companies themselves to look at direct sales as a viable route to market. Kannaway is its parent company Medical Marijuana's fastest-growing subsidiary, says Grapov, with sales doubling year on year. "Network marketing is the fastest way to grow a business," he says.

That's for a number of reasons. It cuts out huge budgets for advertising as "we pay normal people to share

our message instead". For premium or specialised products too, such as CBD, "there are decades of misinformation that take a lot of unravelling. You can't put a \$300 product on a shelf without spending some time explaining what it is."

"The person-to-person experience our members provide is critical," adds Manny Nwosu, senior country manager for the UK for Herbalife Nutrition, which has been selling its supplements, protein snacks and shakes via direct selling in the UK for 35 years. "Our approach goes beyond just selling a product, to include motivation and support that gives our customers the confidence to change for the better. That's what we call our 'distributor difference'. And that is why our products are not sold in stores."

It's an appeal driving more and more food and drink companies to enter the sector too. Though the stricter regulations around the marketing, safety and storage of food products is an inhibitor, Schofield says there is "absolutely" growth within the fmcg segment of the market, from fine wines to premium coffee and a number of nutrition-based wellness products, such as US-headquartered Juice Plus.

"We've been approached by quite a few large fmcg companies who want to start a direct sales channel," she says. "It's so hard to get space on the shelves of high street stores now, as the likes of Tesco and Waitrose charge more to get premium space, and with that money you could get the product through someone's door and have them tasting it. Before long we'll see a couple of very large fmcg brands moving into this arena."

"Our approach goes beyond just selling a product to include support that gives our customers the confidence to change for the better"

"MLMs were targeting women that weren't commercially savvy. These women were being scammed"

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Five food & drink brands in the direct sales channel



Forever Living

The product: Aloe vera drinks and gels

What it says: "The Forever opportunity allows you to be in business for yourself, but not by yourself, providing the tools, inspiration and leadership that you need to reach your goals."

No of distributors: 9.5 million in 145 countries

Business model: A starter pack costs £99-£199. Distributors then earn

up to 43% commission and a personal bonus of up to 18% for sponsoring each new distributor. "As you develop your distributors you'll earn a group volume bonus of up to 13% on each team member" and "a Leadership Bonus for every manager in your downline, starting at 2% bonus and as high as 6%."

Average earnings: N/A



Herbalife Nutrition

Product: Health and wellness fare, from protein snacks to shakes and supplements

What it says: "Founded in 1980, our purpose has always been to provide good nutrition to millions of people. Our members bring the added value."

No of distributors: Over 40,000 in the UK and 4.5 million in 90 countries.

Business model: "Anyone" can become a



member, with low start-up costs and a 12-month money-back guarantee. Members earn money "only when products are sold and never to introduce new members." Commission can be from retail or wholesale profits plus multi-level income on sales of the teams they build below them."

Average earnings: £500 a month for sales leaders with a downline.

Juice Plus

The product: A blend of 30 different fruits & vegetables in supplement form, to add to food

What it says: "Our business model gives you the chance to build up your own business and inspire other people to a healthy life."

No of distributors: N/A

Business model: Juice Plus doesn't share much online (and didn't respond to requests for

comment) but its website says you can sign up without "investment or risk". Distributors don't need to buy up stock, which is shipped directly to consumers. However, there is a £50 application fee.

Average earnings: N/A

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Kannaway

Product: CBD oil-infused products, including vaping liquid and honey

What it says: "We pay normal people to share our message. If distributors work hard and are great at sharing all we offer, it's more than money, it's also community and a way to have a mini cannabis franchise."

No of distributors: 40,000-plus in Europe.

Business model: Distributors can spend around \$250 on key products. Business builders pay up to \$1,000 for packs with training tools, magazines, training events and conferences. Distributors earn commission via product sales but also get bonuses for recruitment and building a team.

Average earnings: About 2% of distributors "have the ability to make seven figures but our plan is to teach people to make \$500-2,500 per month".



Organo

Product: Premium coffee

What it says: "Organo is a global network marketing company on a mission to change lives by helping people reach new levels of balance, freedom and wellbeing."

Number of distributors: 400,000-plus across five continents.

The business model: Organo says the compensation plan for independent distributors

offers no less than seven ways to make money, including commission, bonus structures and interim promotions. It also offers distributors business and leadership training programmes.

Average earnings: Its income disclosure says 94% of distributors make \$0-\$599 per year. Of the 6% achieving 'leadership rank,' 67% make \$600-\$2,000 per year.

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☞ It might not all be plain sailing, though. While it is a channel from which 34% of UK consumers have now bought, says the DSA, the sector also has vocal critics. There are numerous articles and forums denouncing the ethics of the business model, academics that have dedicated themselves to exposing what they see as the industry's duplicity, self-help groups for those that have quit an MLM and lobby groups such as the Anti-MLM organisation, which hopes to raise awareness and push for tighter regulations.

"MLMs are a fraud in plain sight," says Emma, a member of Anti-MLM group's UK arm. MLM schemes target vulnerable people, entice them into escalating debt and make false promises about the potential of shoddy products, she says.

When asked if she believes it's a few rogue companies or whether the criticism applies to all operating in the sector, she insists "it really does apply across the board". And a quick Google search proves the anti-MLM movement doesn't shy away from such allegations, even against major household operators.

Wrong perceptions

Advocates for direct selling, conversely, all accept that this sort of criticism is an issue. But they insist it's the work of a few rogue operators. "There's no secret there are some companies out there – that are not our member companies – that aren't necessarily ethical," says Schofield.

"The direct selling model has received its fair share of criticism, despite the sector boasting many well-established, listed companies that contribute greatly to the economy of the countries in which they operate," adds Nwosu. "We believe a lot of this criticism is based on wrong perceptions and a lack of understanding of how the direct selling business model works."

How do these companies counter the specific allegations? First there is the investment in stock. Critics say companies require signees to buy expensive starter kits, and then encourage them to keep on buying product on a regular basis, landing them in spiralling debt. As many companies don't share such information before you agree to sign up, it's difficult to gauge the average investment, but the cost of starter kits can range from nothing to thousands of pounds. Some com-

panies also encourage a subscription or auto-shipping model where you receive another batch of products each month, regardless of whether you've sold anything. For one former distributor the result was £5,000 of debt while she was still a student (see box, p35).

Schofield insists this sort of practice simply isn't permitted by direct selling brands signed up to the DSA. "If you're a member you're not allowed to charge more than £149 for a start-up pack and across most members it's free." Auto-shipping is also banned, she says, while the e-commerce boom has meant there's no longer a need to buy up inventory at all in many cases. Distributors can sell with their samples and then only order products once they've made a sale.

Grapov draws comparisons with other opportunities for entrepreneurship. "In a traditional business, say if you want to open a Starbucks franchise, you're looking at a million-dollar outlay with zero guarantee of return. Business takes investment."

Second on the list of allegations are false promises, and the people these companies target to sign up. The Anti-MLM group's Emma first came across the concept of an MLM when she was working with new mothers suffering from post-natal depression in a poor borough of London. There were multiple ads from MLMs advertising opportunities, she remembers. "They were targeting a group of women that weren't commercially savvy, that may not have worked before or only had low-paid jobs. These women were being scammed rather than offered an opportunity."

This, say critics, is combined with grandiose claims on websites of the potential to make millions – when in reality the failure rate, Emma claims, is around 99.7%. On further investigation it seems that particular figure relates specifically to US MLM Amway, rather than distributors across the board, but it's true that more overarching estimates don't put success rates much higher.

As few MLM companies will share this information publicly, it's hard to verify any such success rate, though an Ipsos Mori study in 2018 for Seldia, the European Direct Selling Association, found average earnings in the UK were just £372.95 per month. At Herbalife UK the average is £500 per month for those leaders that have built a downline (a team beneath them), says the company.

"We don't promise the moon or teach people to be millionaires but everyone could use another \$1,000 a month. We can teach them how," adds Grapov.

"We would never say this was a get-rich-quick scheme," adds Peter Kropp, global director for The Body Shop at Home. "We'd say it's very hard work and will teach you what you need to do" but "obviously everything is relative to your engagement and effort."

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Rewards

The final – and arguably biggest – criticism of MLMs is that no matter how much effort you make, that isn't where the rewards are. "Yes, MLMs have a product," says Emma. "But the product is a veneer to operate as a recruitment pyramid scheme. The real agenda is to recruit everybody you know."

The result is a structure of uplines – the distributor who has recruited you to their team – and downlines – the distributors you've recruited to your team – with money to be made either by simply signing up someone new, or via an additional commission on all volume sales made by your downlines.

In 2016, Herbalife's US business was forced to pay \$200m compensation to distributors and to restructure its business model as a result, paying distributors on recruitment rather than retail demand for the product. It caused "substantial economic injury to many of its distributors", said the Federal Trade Commission. Now Herbalife UK says "members are compensated only when products are sold, and never for the introduction of new members," though there's still money to be made from downline sales.

This shift from recruitment bonuses is part of a general trend in the sector, says Schofield. "Gone are the days when you needed to recruit a certain number of people to qualify." It's part of evolving and scaling up the concept for the 21st century, she adds. "We've moved from being niche to mainstream retail, and with that move we need to make absolutely sure we're sticking to those codes of conduct and that way of practice."

Emma vehemently disagrees. For distributors "this is not about stupidity, it's about vulnerability. If you haven't got much money and you're contemplating returning to full-time or inflexible work where you won't be with your children, and then someone sidles up to you who you trust – because this is how it's done, via a nice lady at your baby group – and presses all the right buttons, then the sunken cost fallacy sinks in. You try this thing, you buy all the products, you tell all your friends and distance yourselves from those that question it. You're in, it's not working but maybe it will tomorrow and you've spent all this time and money so you should stick with it. That's how it gets people."

Undoubtedly this is the experience of some. You only need to glance across the multitude of forums, websites, blogs and podcasts dedicated to the topic to understand that. At the same time there are those with wholly different experiences (see right) and familiar, trusted brands insisting this is not only a legitimate route for people looking to make a bit of extra money, but for companies looking to get their products into the homes and hands of brand-new demographics.

One that is clearly tempting in fmcg brands too, both big and small.

It really is true that this is one of the biggest industries that nobody talks about. Either way, it's time we did.

Can direct sales boost bricks and mortar retail?

So how well can an army of independent distributors complement an existing high street presence or e-commerce platform?

Quite well, if you look at the success of The Body Shop at Home. The cosmetics business has run a direct sales arm for 25 years now, but in 2018 the channel grew 70% and its sales force of independent consultants doubled to 16,000.

"Some direct selling companies have a great product but no channel through which to sell and use direct sales as an opportunity to do so," says Peter Kropp, global director of The Body Shop at Home. But at The Body Shop "it's one of four channels – bricks & mortar retail, direct to consumer via e-commerce, franchises and direct to consumer via direct sales".

That omnichannel approach has a number of virtues, he believes. "There's a halo effect of all the different channels working together. Both retail and e-commerce are doing well, as well as direct sales, and that has

a lot to do with our brand presence, and efforts to revitalise the brand on its core story. The brand is more attractive overall so it's attractive in all channels."

But having a direct sales arm also allows a retailer to "reach out to customers who may not be coming into your retail outlets". And direct sales give the company another chance to get its foot in their front door.

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Cons and pros of 'network marketing'



Name: Em
Job: Cosmetics business

Case study A

Em was a student when she spotted ads for a cosmetics direct selling business in 2016. The opportunity to become a distributor and earn extra money flexibly around her studies while making new friends appealed and she signed up, purchasing a starter kit for £99 plus some extra on marketing materials such as business cards, a domain name and additional stock to sell.

The pressure not only to sell but to recruit came fast. "It was a week in and the recruit element was introduced." Encouragement to start "building your team with intense meetings via Zoom started to happen as well as private Facebook groups and training via my uplines team".

Em says she spent more and more money on stock as well as attending training events where she met the founders. "The pressure was relentless."

But "I realised it wasn't going to work when I'd travelled 50 miles to hold a house party and nobody bought a thing. After that I was told in order to remain active as a distributor, I had to spend another £125. I told my upline I was done and cut all contact." But not before Em had spent £5,000 on stock, materials and travel, selling off stock she'd bought for £2,000 for just £125.

Now her view is unequivocal when it comes to MLMs: "It's a predatory pyramid scheme. I feel like I've been freed from corporate chains."

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Name: Jane
Job: Consultant at Captain Tortue

Case study B

Jane has previously been in charge of her own headhunting firm, which she was in the process of winding down when she began exploring 'side hustles' on social media. "I soon realised many fabulous women were doing a number of these side hustles to fill their time and to fill their bank accounts. Fifty-something women in particular who were used to earning money and didn't want to – and couldn't afford to – stop working."

Inspired, Jane joined fashion direct selling business Captain Tortue – a company she'd already worked with briefly when her children were younger – as a consultant.

"Just four weeks after joining, I had held two parties, which were such a success I hit my target for the season. I earn commission on each item that I sell, and by hosting between around two to four parties a month, I make upwards of £600 per month, which nicely supplements my main income. Plus, I love the fact that the potential is uncapped; if I put a bit of extra effort in, I really see the results in what I earn that month.

"I feel like I have been freed from corporate chains and I'm happier than I have been in years. As well as giving me satisfaction from earning additional income by using my business skills, it's also sociable and enjoyable."

