Direct sales

Going direct

BW Confidential looks at the strength of direct sales in emerging markets and where the business is headed

credit: stock.xchng

Direct-sales performed much better than other distribution channels during the recession. The channel's low-price points had greater appeal, while high unemployment meant direct-sales companies were able to recruit more sales consultants. The strength of the channel in emerging markets, which escaped the worst of the financial crisis, also helped maintain growth. Euromonitor reports that direct sales in the beauty category saw growth of 6.6% in global sales in 2009 to reach $30.72bn, and that the channel now accounts for 11% of the world's personal-care market. Beauty and personal-care products are growing their share in the overall channel and Euromonitor notes that the category accounted for one-third of all direct sales globally in 2009, up from one fourth five years ago.

This growth and the strong positions held by direct sellers in emerging markets have also made these companies interesting acquisition targets. Rumors abounded recently that L'Oréal was mulling a takeover of Avon—a deal that would mean emerging countries would account for 45% of L'Oréal's sales and that 30% of revenues would come from direct sales (a channel the group knows little about), according to analysts at UBS. Several years ago there was also talk that L'Oréal was looking at a bid for Brazilain direct seller Natura. However, making these deals work could be difficult. "Acquisitions in direct sales are difficult as the business already has high turnover rates in terms of consultants, so how can you guarantee the consultants would stay (after a takeover)? You could end up buying nothing," comments Natura Cosméticos vice president of business José Vicente Marino.

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Beauty & personal care direct sales by region 2009 $bn

Region	$bn	% change 09 vs 08
Latin America	10.99	+15.5
Asia-Pacific	8.06	+3.5
North America	5.27	-3.4
Eastern Europe	3.35	+5.6
Western Europe	2.27	+3.9
Middle East & Africa	0.45	+15.8
Australasia	0.34	+1.9
World	**30.72**	**+6.6%**

Source: Euromonitor

Opportunity knocks

The biggest market for the channel is Latin America, which saw sales increase 15% over 2008 (Euromonitor), largely due to growth in Brazil and Argentina. Euromonitor head of non-store retailing Daniel Latev notes that every fourth beauty sale in Latin America is generated through the direct-sales channel. "Brazil took the lead from the US in 2009. It is now the largest direct-sales market in the world, and has more than doubled its sales over the past five years," he comments.

US-based Avon, the global number-one direct sales company has the lead in Latin America. The company saw sales growth in the region of 13% in the third quarter of this year. ■■■

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■■■ However, in Brazil, the region's biggest market, Avon has a tough time competing against local players, especially the country's number-one group Natura, which has a 22.5% market share and net sales of R$4.2bn (US$2.47bn) . Belcorp, which ranks third in the region, is also a major competitor for the US group. More competition may be on its way, with Brazil's second largest beauty group O Boticario testing a direct-sales strategy in the country. The company started a pilot project to evaluate the channel in two cities in Brazil this year.

Natura, meanwhile, is also flexing its muscles in neighboring Latin American markets. The group has seen its ranking improve from number 16 in 2008 to number 12 in 2009 in the total beauty market in Latin America. This year it also implemented a new business model to export markets. "We've taken a more local approach in our Latin American markets by creating business units in each country to develop specific products and programs for local consumers," comments Natura's Vicente Marino. The company now operates subsidiaries in each of its Latin American export markets and will begin manufacturing in Argentina by the end of the year, a model it will introduce to other markets in 2011.

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Room to grow in Asia

Despite growth of just over 3% in 2009, the second-largest region for direct sales, Asia Pacific also holds much promise. In China, the ban on direct sales was lifted in 2005 and figures from Kline & Company state that beauty direct sales have risen by nearly 27% there over the past five years. The channel's share has nearly doubled to 10% in the same period following the enactment of the law that makes it compulsory for companies to obtain a direct-sales license.

Avon, however, is still struggling in China—sales fell by 30% this year, versus 2009, and ceo Andrea Jung notes that sluggish sales of its skincare products in the country put a damper on the company's overall third-quarter results. Much of this is due to Avon's decision to migrate from a retail boutique model (a strategy it first took to enter the market when the direct-sales ban was in place) to a purely direct-sales operation. The company piloted this new model in three cities this year and will expand it to 16 by the end of the year. Avon also continues to invest heavily in China: in March it announced it would open a new 40,000ft^2 (3,700m^2) R&D center in Shanghai (replacing a current facility in Guangzhou), which will be its largest center outside of the US.

US direct seller Nu Skin, meanwhile, which entered the market after the ban was lifted, is ranked third in Asia-Pacific and saw sales gains of nearly 30% in mainland China (in local currency) in the third quarter of this year. It attributes this growth to the success of AgeLoc, its premium skincare and nutrition "anti-aging platform".

India: early days

As for India, there is also strong potential, especially given the lack of a developed retail network. Today direct sales account for only 3% of the beauty market in the country (Euromonitor), although personal care and cosmetics products make up 18% of the country's direct-sales market, according to the India Direct Selling Association. "In these countries the micro-economy is much stronger than what we're used to in Europe or the US. More people are willing ■■■

Top-10 direct-sales companies worldwide by market share 2009

Rank	Company
1	Avon
2	Amway
3	Herbalife
4	Mary Kay
5	Tupperware Brands
6	Vorwerk & Co
7	Natura Cosméticos
8	Oriflame Cosmetics
9	Nu Skin Enterprises
10	Arbonne International

Source: Euromonitor

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■■■ to work in a family business and that plays in favor of a company like ours," notes direct seller Oriflame senior director of investor relations Patrik Linzenbold. Oriflame is among the top beauty direct sellers in the country, although the market still accounts for a small share of its global business.

Some non direct-sales companies, such as Netherlands-based Unilever, have taken a direct-sales approach to increase penetration in smaller towns. The company's Project Shakti, launched in 2000 in India, recruits villagers to sell subsidiary Hindustan Lever's soaps and shampoos directly to consumers. Unilever says that by the end of 2009, 45,000 entrepreneurs were selling products to three million consumers in 100,000 villages. The company plans to roll out similar initiatives in Sri Lanka and Bangladesh.

Challenges ahead

Mature markets are more of a challenge for direct-sales. Kline notes that the channel in Japan is losing share to department stores, drugstores, and specialty retailers and the US market has been stagnating since 2007. Given the difficulties in Japan, Avon sold a majority share of its Japanese subsidiary to private-investment company TPG Capital earlier this month in order to focus on higher growth markets. Some analysts say however, that there is an opportunity in these markets to change the image of direct selling and better exploit the direct involvement the consumer has with the product in this channel. "Most direct-sales brands don't have cachet, but how long will it be before a higher-end brand comes along?" US-based consultant Kate Newlin recently told *BW Confidential*. Nu Skin's premium line AgeLoc, for example shows that consumers are not just looking for low-priced items from the channel.

Direct sales is also a channel where it is harder to control how products are presented and sold. "Quality control in the shopping experience is one of the main challenges facing direct sales today," says Natura's Vicente Marino. "Customers still have to wait too long for their product and they still look at a catalog without being able to test the products. We can make the process more qualitative through sampling, pop-up kiosks in stores and experimenting with online initiatives". Mixing the traditional door-to-door business with other formats, such as online sales, is one way the business is set to evolve (see box).

Productivity from sales reps can also be problematic. As a result many companies are reviewing their compensation and recruitment strategies. Some pay their consultants according to products sold, while others, such as Nu Skin and Oriflame, have a multi-level model, in which consultants are paid for what they sell and how many consultants they recruit. They can also reap a share of their recruits' revenue. "The big money comes from the sales resulting from having built a large network, recruiting people, coaching and training them, and more players are now moving towards this multi-level approach," says Oriflame's Linzenbold. If the channel can boost productivity of its sales reps and benefit from emerging market expansion, growth looks assured. ■

Technology to the rescue?

The internet is set to impose major changes on the direct-selling channel. It has already helped save costs, boost recruitment and improve training. At Oriflame, more than 70% of orders are done online and the company provides tools for consultants to track how their business is progressing, while at Natura online orders from reps reached 71% this year, up from 53% in 2008. Direct sellers are also harnessing the power of social media in the recruitment process. Some companies say that their younger consultants build their network almost solely online. Natura has been proactive in this area—it operates a Facebook-like community called Natura Nós, which links staff and sales reps. Mobile commerce is also in its infancy in the channel. "What if everyone could access the catalog digitally, instead of a company having to print 150 million catalogs?" asks Linzenbold.

Technology helps lower costs in terms of ordering and administration, but will it make the sales consultant's role redundant in the long-term? According to Euromonitor, online sales "outstripped by far" the growth rate of direct sales in recent years. The ease of buying online cannot be underestimated, especially when it comes to replenishment. A number of direct sellers, including Avon and Belcorp, already operate online stores, but how this platform will affect their core door-to-door business remains to be seen.