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IT Enabled In-Home Direct Selling Presentations

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ABSTRACT

In 2007 over $30 Billion in US retail sales were driven by over 15 million US direct sales distributors selling everything from cosmetics, household goods, nutrition, life insurance and mortgages. (Direct Selling Association).

In the direct selling industry, prior to the Internet, direct sales presentations relied on a direct selling distributor traveling to the prospect’s home to make a presentation (Raymond & Tanner, 1994, p. 130).

This research makes several contributions:
1. It provides additional academic literature on a powerful distribution channel that is a viable alternative to traditional retail, yet has had little academic study.
2. It provides an updated academic definition of direct selling since previous definitions were given before the Internet changed the way the business operates.
3. It demonstrates that an IT enabled telecommute sales presentation may be a viable alternative for the direct selling distribution channel compared to their traditional in home presentations.

KEYWORDS

TELECOMMUTE, PERSONAL SELLING, DIRECT SELLING, DIRECT SALES, EMAIL MARKETING

STATEMENT AND ORIGIN OF OUR RESEARCH FOCUS

There is slim academic research on direct selling, and the research that exists categorizes it as a form of personal selling that relies on in-home presentations.

The author of this study was engaged by a leading supplier to the direct selling industry to research if an IT enabled sales presentation solution could replace or supplement the traditional in-home sales presentations that formerly defined the direct selling distribution channel.

Over 75,000 paying direct selling subscribers currently use the produced solution to send out marketing messages using email, online, and mobile technologies to replace or supplement traditional in-home presentations done with physical media.

To understand why replacing or supplementing in-home presentations is a particularly sensitive issue for this distribution channel, it is useful to understand a little about how direct selling works.

A REVIEW OF ACADEMIC LITERATURE CONCERNING DIRECT SELLING

Direct selling is one of the oldest forms of distribution. Yet the academic literature continues to largely ignore the study of this distribution channel, the companies that use it, and the independent distributors who earn their living by using it (Albaum 1992; Peterson and Wotruba 1996; Brodie, Stanworth, & Wotruba, 2002).
The direct selling distribution channel fuels the success of companies like Avon, Pampered Chef, and Primerica Financial Services. The “industry” of companies using direct selling distribution is a big business, distributing every type of product that traditional retail does, but achieving their sales in a manner that bypasses conventional retail marketing distribution and strategies. However, done incorrectly, such distribution methods become abused and the companies using them get branded as illegal pyramid schemes (Koehn, 2001, p. 156).

That lack of public and even academic understanding of what differentiates a legitimate direct selling opportunity from a pyramid scheme may be a reason for the lack of research. “Indeed, it is not an overstatement to contend that direct selling has been virtually ignored in the marketing literature.” (Peterson & Wotruba, 1996, p. 1).

This paper considers direct selling to be a method of distribution that relies on personal selling by an individual to an individual without a retail store front. We provide an updated definition for three reasons. First, we believe that most business practitioners and academics who read this article will not know what direct selling is or how to define it, “…many business dictionaries...do not contain a definition of direct selling.” (Peterson & Wotruba, 1996, p. 1). Second, there are several definitions of direct selling that have been considered in even the lean amount of academic literature that has mentioned direct selling over the years. Third, the previous academic definitions that do exist do not seem to take into account how the Internet has changed how direct selling presentations are made. Here are some of the recent ones in order of publication date:

- 1984 – Baker defined direct selling as “A form of selling without retail outlets distributors, wholesalers, or any type of middleman.”
- 1984 - Bernstein defined direct selling as “Direct selling is the technique of approaching a customer on a person-to-person basis, either with a group approach (as in in-home party plan) or individually, one-on-one, to offer products conveniently with a personal service emphasis.”
- 1988 – Ostrow and Smith stated that “Direct selling commonly refers to such activities as telephone sales, door-to-door selling, or in-home parties.”
- 1991 – Baron et al defined direct selling as, “The establishment of an immediate exchange relationship with a customer in which the usual intermediaries in the distribution chain are omitted.”
- 1992 – Clement defined direct selling as, “A sales approach characterized by personal product explanations and demonstrations, often in the consumer’s home or retailer’s establishment.”
- 1992 – Hart and Stapleton stated that direct selling is, “Selling without the use of a retail outlet, distributor, broker or wholesaler or an other form of middleperson.”
- 1994 – Raymond & Tanner documented that “The Direct Selling Association defines direct selling as personal contact between a salesperson and a consumer away from a store.”
- 1996 - Peterson and Wotruba, stated that “direct selling is nothing more than a form of interpersonal communication between two individuals.”
- 1998 – Bennet stated that direct selling is “A marketing approach that involves direct sales of goods and services to consumers through personal explanations and demonstrations, primarily in their homes.”

The Internet changes how a direct selling individual can make a presentation in another’s home because the Internet allows the direct selling distributor to make her presentation in another person’s home *without leaving her own home.*

Companies like Amazon and Dell have shown that the Internet can facilitate large scale and legitimate non-store front retailing. So what is the difference between an Amazon or a Dell and direct selling companies like Avon, Pampered Chef, Mary Kay and Primerica that also achieve large scale sales without retail store fronts?

One key difference is that direct selling companies rely on independent distributors to drive the sales and promotions of their products. In other words, the sales revenue is obtained by word of mouth selling efforts of individual independent distributors rather than direct marketing efforts. “Direct selling is much more about selling than marketing, and it is this focus that sets it apart from the direct marketing or retailing.” (Sanan, 1997).

So, in the Internet enabled age, we consider direct selling to be: an activity of personal selling by an independent sales representative to customers without using a traditional retail store front.
Dywer, Hill, & Martin (2000, p53) define the Personal Selling Process as follows:

“1. Prospecting: Salespeople use multiple sources to identify prospective buyers for their products and services. A potential buyer is considered a prospect when qualified in terms of (a) need or want, (b) ability to buy, (c) authority to buy, and (d) eligibility.

2. Pre-approach: Information is gathered about the prospect in preparation for the sales call. This information is used to both further qualify the prospect and to develop an effective approach and presentation to the customer. This stage typically culminates in setting an appointment with the prospect.

3. Approach: This step covers the first few minutes of the sales call—a critical time for salespeople. The salesperson's objective is to make a favorable first impression and to gain the customer's attention and interest sufficiently to make the presentation.

4. Sales Presentation: This is the "core" of the sales process where salespeople present their offerings' features and benefits to potential customers. Attempts are made to arouse customer's desire for the product.

5. Handling Objections and Overcoming Resistance: Salespeople attempt to overcome the prospect's resistance and reluctance to purchase by responding to objections and emphasizing particular product benefits to promote purchase decisions.

6. Closing. Salespeople initiate purchase decisions through methods designed to solicit orders. In the most appropriate and effective manner, customers are asked to purchase the offering.

7. Post-Sale Follow-up: Salespeople continue to emphasize customer satisfaction in the post-sale period. Activities during this time include reducing post-purchase concerns of customers; ensuring timely delivery, installation, and/or training; providing periodic follow-up or maintenance service; and handling complaints and questions. In general, the goal is to build goodwill to enhance future sales chances.

* Based on Dubinsky and Rudelius (1980) and Hite and Bellizzi (1985)"

For our experiment, we focused on the role of the Internet to facilitate an IT enabled distance / telecommute solution for #4 (the sales presentation) on Dywer, Hill, & Martin Personal Selling Process list.

THE EXPERIMENT

Within the context of direct selling, our pre-implementation research discovered several constraints and guidelines from the subject experts in practice:

- Many direct selling distributors are not professional sales people. Most are part-time Moms working from their homes who rely on pre-recorded mediums to make the sales presentation for them (Direct Selling Association).
- When we designed our experimental system, we decided against allowing distributors to upload their own video presentations for fear that they would be using presentations that would expose the corporate direct selling office to harm or liability. Instead, only videos that were centrally provided by the corporate offices were allowed to be emailed out.
- We initially tried just posting high quality videos to websites, but we discovered several problems with this because of the peculiarities of the direct selling domain. First, videos simply posted to a webpage had a low perceived value. Second, it drove the wrong kind of behavior in the sales force. They would simply mention the website to prospects and then not follow up further or actually push the prospect to watch the video. “As a generic strategy, direct selling is a push marketing strategy. This means that for a direct selling firm to be successful, all facets of its organization and manner of doing business must be consistent with the tenets of a push marketing strategy” (Peterson & Wotruba, 1996, p. 7). So, we changed the solution provided so that links to the videos had to be emailed to the prospects to get results.
• We determined the system had to provide some automatic organization of who had been sent a video. The literature on CRM (customer relationship management) and SFA (sales force automation) states that a primary purpose of any sales technology must be to improve the prospecting and follow up performance of the sales person. (Rapp, Agnihotri, & Forbes, 2008, p. 336) & (Keillor, Barshaw, and Pettijohn 1997)& (Hunter and Perreault 2007)".

• However, our application was not to be a CRM nor a full-blown SFA application. We were advised during our interviews and from our literature review to avoid designing our IT delivery channel to transform the model of direct selling (person-to-person conversations driving new sales and recruits) into a model of direct marketing or centralized relationship marketing. “Direct Selling is differentiated from direct marketing, which is defined as a relational process where products are sold directly to the consumer using direct mail, telemarketing and direct response advertising such as television solicitation. Direct selling, on the other hand, requires individual one-to-one sales presentations rather than indirect presentations. One type of direct selling is network marketing (NWM), a type of direct selling usually performed by an independent distributor representing the manufacturer or franchisor of a product or service (Bauer and Miglautsch, 1992; Chonko and Caballero, 1989).” (Kustin & Jones, 1995, p. 60).

• We determined the distributors had to get some type of alert when a specific prospect watched the video. The ability for a distributor to know when it was still premature to follow up was considered essential in not seeming too pushy to a prospect. Both the distributors we interviewed and the existing academic literature on direct selling supported that the perception of pushy distributors is a common objection to buying from a direct selling source: “Survey participants perceived the major disadvantage of buying from a direct sales company to be pressure sales tactics or pushy salespeople; 49 percent mentioned this as a disadvantage. Other perceived disadvantages include the bothersome nature of direct selling and low reliability of salespeople.” (Peterson, Albaum, & Ridgway, 2001, p. 280)

• We determined that this tool, unlike CRM would be concerned about recruiting (not retention). The customer churn (rate of customers discontinuing) in direct selling is fairly high; whereas a bank may have up to 33% customer churn per year, in direct selling companies the churn may be as high as 100%. This reality is recognized by the academic literature on direct selling, “A direct selling organization may lose 100% or more of its sales force in a single year (Peterson and Wotruba 1996; Wotruba and Tyagi 1991).” (Vander Nat & Keep, 2002, p. 140). Several of the top distributors we interviewed also recognized this reality with different pithy sayings, our favorite being, “in our industry, it’s easier to give birth to a new customer, than raise an old one from the dead.”

THE IT SOLUTION WE PROVIDED TO RUN THE EXPERIMENT

Our research assignment was to see if an IT enabled presentation could enable direct selling representatives to make high quality in-home presentations without leaving their own homes. We verbally interviewed a hundred or more direct selling corporate executives and top distributors, as well as surveying any existing systems on the Internet that accomplish a similar purpose. Using the guidance from our interviews, market examination, and literature review, we built a platform and began presenting it to direct selling companies.

The system we designed had several design elements specifically tailored to being a direct sales use product with the express purpose of facilitating an IT enabled alternative to a traditional in-home presentation:
1. The price point was made low enough that a monthly subscription model would be possible, and the distributor would not be inclined to cancel because of price.
2. The system was made to generate only one link per recipient to discourage mass mailing, i.e. spam like behavior.
3. Corporate controls of the content were put in place to discourage independent distributors from making unsubstantiated (illegal) claims about the product efficacy or income opportunities.
4. The system was made to be as simple as possible to minimize the training needed to use the system (the main functionality is to enter an email address and click send).
5. Tracking was provided. Among the market test groups we interviewed informally, we were told that the biggest objection a prospect has to joining a direct sales opportunity is the inability to make a sales presentation (hence the reliance on pre-recorded sales presentations in this channel). We were also told that the second biggest objection is that even when using a pre-recorded presentation, many potential distributors still feel reluctant to follow up with the prospect because they do not want to call prior to
the presentation being watched. So, the ability for the distributor to track whether a prospect has watched the presentation was considered a critical feature to the success of the system.

6. The interface for organizing and tracking who had been sent a link and who had watched a link was kept to a single screen to maintain the highest simplicity and ease of use.

7. Sophisticated CRM would be de-emphasized at the request and suggestion of those we interviewed (we were advised that perceived ease of use was considered to be more important than a wide feature set).

FINDINGS

As of December 2009, there were over 75,000 paying distributors who had monthly subscriptions to use the system.

The users of the systems can be divided into two broad groups: 1) users where we charged their credit card directly $10 a month, and 2) users where we charged the corporate office of a direct selling office and they resold the service. Due to the increased difficulty of obtaining permission from the second group to discuss the results of the system, we are only going to discuss the results where we charge the credit cards directly. We charge credit cards directly on several thousand of our end users, spread across 7 different direct selling companies, which we label Company A through Company G to protect their anonymity. Conveniently, the 7 companies where we charge credit cards directly all happen to sell consumable nutritional and/or energy health products.

Company A started off on a program in Dec 2007 of buying 20 links for $20 with each link dying after being played. The market group quickly rejected this pricing model and in February 2008 we switched to charging $10 a month and allowing the distributors to send out as many links as they wanted. The price drop alone seemed to immediately more than double the volume of paying subscribers.

After a few months, we decided to run an experiment within the experiment by telling Company A’s distributors to telephone the prospects directly prior to sending the email to tell them they were sending them an email with a video that they wanted the prospect to watch. Company A subsequently sent 131,882 links from February 2008 to the present with a click through rate of 39.85%, with the prospects watching 82% of the video sent on average. We define click through to mean the prospect not only opened the email but they also clicked the link in the email to start watching the video. It is worthy of note that this company’s click through rate prior to the later discovery of telephoning before emailing was introduced around June 2008 ran between to 20%-25%. Conveniently, our next group, Company B, decided to not pass on our recommendations to their sales distributors on telephoning before sending the email, which allowed a kind of control group scenario so we could see what the difference in their click-through rate were.

Company B, Group 1 sent 4,748 links from February 2008 - Present with a click through rate of 23.1%, with the prospects watching X% of the video sent on average. Company B, Group 1 was launched with a $10 price model almost identical to the relaunch of Company A’s new pricing model. However, unlike Company A, we did not and have not told Company B to telephone their prospects directly before sending the videos. Company B’s click through rates have remained about half of those companies directed to telephone before emailing a video link.

Company B, Group 2- in June we attempted our second experiment within our experiment. We provided our service separately to a second leading sales group within Company B who was known to buy leads from an Internet lead generation service. This group subsequently sent 390,207 links from June 2008 - Present with a click through rate of 4.37%, with the prospects watching 82% of the video sent on average. It is noteworthy that Company B, Group 2, who relied primarily on buying leads from a lead generation service has had the lowest click through rate and has had the slowest actual growth in subscriber base of all the groups where we bill the credit cards directly. The Company B, Group 1 group (does not emphasize buying leads) has also had a much higher click through ratio than the Company B, Group 2 (does emphasize buying leads), 23% (no bought leads) click through compared to 4.4% (bought leads) click through.

Company C sent 49,950 links from June 08 to the present with a click through rate of 42.07%, with the prospects watching 87% of the video sent on average. This group, like Company A, was told to telephone the prospects before emailing a video link, as were all subsequent groups. It is noteworthy that across all groups that specifically trained
their sales force to telephone their prospect directly before sending the email with the video link, the click through rate was much better than the Company B type groups that decided not to explicated train their sale force to telephone before sending the email.

Company D sent 43,226 links from July 2008 to the present with a click through rate of 30.16%, with the prospects watching 88% of the video sent on average.

Company E sent 18,635 links from January 2009 to the present with a click through rate of 68.58%, with the prospects watching 68% of the video sent on average.

Company F sent 1,627 links from April 2009 to the present with a click through rate of 20.41%, with the prospects watching 77% of the video sent on average. Interestingly, this group has not yet instructed their field leaders to train their distributors to telephone to obtain permission before sending the email.

Company G sent 2,406 links from July 2009 - Present with a click through rate of 24.11%, with the prospects watching 84% of the video sent on average. This group has also not yet instructed their field leaders to train their distributors to telephone before sending the email.

We intend to re-encourage Company B and F and G to train their sales force to telephone their prospects directly before emailing the video link and see if their click through rate subsequently escalates to the level of the other companies that elected to give those instructions to their sales force.

Even though we made the ability to send links and monitor their progress with the iPhone, the ability was utilized by less than one percent of the users. So the ability for mobile application management of IT enabled home presentations in direct selling is as yet uncertain.

Another interesting point was that the email templates that produced only a plain text video link rather than a video link with accompanying marketing copy had at least the same click through rates and distributor usage selection as emails sent with elaborate marketing copy in the groups that were instructed to call before sending the email. In many cases the emails with a plain text video link actually did better on click through rates as a category of emails sent compared to the emails with accompanying marketing copy. This reinforces the suggestion that it is the selling and conversations of the independent distributor, and not “direct marketing” techniques that drive the action in direct selling distribution. This is congruent with the suggestions of those we interviewed and the prior literature we reviewed that direct selling is distinct from direct marketing. “Often, Direct Selling is confused with Direct Marketing (Bauer and Miglautsch 1992), which is simply the marketing of goods and services directly to consumers through ‘the use of the telephone and non-personal media to communicate product and organizational information… who then can purchase them via mail, telephone, or the Internet’ (Pride and Ferrell 2000, p. 411) (Chonko, Wotruba, & Loe, 2002, p. 87). Direct selling seems to drive sales through conversations and word of mouth rather than automated marketing messages. So, any technology to assist driving direct selling should seek to create opportunities for rather than replace one-on-one personal communication.

We found that the Internet allows the corporate office to place controls on communications that did not formerly exist. This is meaningful for a marketing channel that struggles with false claims issues. “Direct sellers are formal representatives of a company but are also considered to be independent agents. They are not viewed as employees and are not subject to the same kind of control systems found in traditional sales departments. They are required to follow the legal and ethical guidelines set forth by the parent organization (Pratt 2000), albeit through a less formal structure” (Jaramillo & Grisaffe, 2009, p. 170).

**IMPLICATIONS AND CONTRIBUTIONS**

Because the age of Internet enabled direct sellers allows a direct seller to make an in-home presentation in another person’s home without leaving their own home, we have provided an updated definition of direct selling: “we consider direct selling to be an activity of personal selling by an individual to an individual in a way that bypasses a traditional retail store front.”
The CRM literature often correlates adoption with success regarding technology designed to assist salespeople. We have demonstrated that over 75,000 subscribing distributors were willing to pay for the service each month to make IT enabled home presentations.

We also help give some academic exposure to a little studied marketing channel (direct selling).

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