

## **THEORETICAL FOUNDATIONS OF DIRECT MARKETING**

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**ABSTRACT:** *One of the most dynamic industries having emerged as a result of the development of human society and of globalization tendencies is the industry of direct sales dealing with the systems of products and services distribution through networks of independent distributors, also known as network marketing or direct marketing. Direct marketing systems were created in the U.S.A. as most of the new marketing methods. By the 1940s, the company California Vitamins was the first that allowed its distributors to directly recruit other distributors that were paid a commission for the sales they made. The company thrived in time and subsequently changed its name into Nutrilite. Two of the best distributors of the company created AMWAY Corporation, which became the largest Network Marketing Company in the world, displaying sales of six billion dollars per year. In accordance with Deakins, an entrepreneur is the individual who owns the commitment and ability to assume reasonable risks with a view to succeed in business*

**KEY WORDS:** *direct marketing systems, business, development, levels, distributors, pioneering, network marketing.*

**JEL CLASSIFICATIONS:** *D22, D30, M39.*

### **1. EVOLUTION OF DIRECT MARKETING SYSTEMS**

The study of management theories and principles that rule the process of management also engage the knowledge of practical applications in which managerial environment can develop.

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### 1.1. Tendencies of globalization

Globalized economic development, which includes more and more domains of the social life, uncovers new evolution directions of society displaying three major tendencies:

- Lifestyle change
- Change of labor concepts
- Direct sales revolution

The current definition of tendency in the development of human society was set forth in 1991 by Faith Popcorn, after a market study carried out during several years:

*“A tendency represents the direction most consumers, and especially the most demanding ones, consider as being the most open to the market requirements. Tendencies are important for placing a product on the market and for harmonizing it with the needs of the people, expressed in a specific language.”*

The global tendencies of development of world society were first set out in 1982 by John Naisbitt, who identified the following ten mega-tendencies:

1. *Transition from industrial society to informational society;*
2. *Transition from fundamental technology to highly qualified technology;*
3. *Transition from isolated economy to world economy;*
4. *Transition from short-term planning to long-term planning;*
5. *Transition from centralization to decentralization;*
6. *Transition from institutional assistance to specialized consultancy;*
7. *Transition from democratic representation to democratic participation;*
8. *Transition from hierarchy to network;*
9. *Transition from North to South;*
10. *Transition from YES/No decisions to multiple-solution decisions.*

Tendencies 1, 5, 8 and 10, which announce the conditions for the development of new relations between consumers and producers, stand out. Consumer goods, which are the most important products within these relations, are able to reach from producer to consumer only in the case when their distribution is effective.

As a result, the success of all businesses is influenced by the quality of distribution, by its originality and the performance of its procedures.

### 1.2. Emergence of direct marketing systems

Direct marketing systems were created in the U.S.A. as most of the new marketing methods. By the 1940s, the company California Vitamins was the first that allowed its distributors to directly recruit other distributors that were paid a commission for the sales they made. The company thrived in time and subsequently changed its name into Nutrilite. Two of the best distributors of the company created AMWAY Corporation, which became the largest Network Marketing Company in the world, displaying sales of six billion dollars per year.

**Pioneering.** The direct marketing system developed in the U.S.A. during the period 1950-1970. Owing to its unexpected success and to a series of independent

unscrupulous operators on the new marker of direct sales, the system implemented by several companies (Amway, Mary Kay, Nutrilite and others) was attacked in Court. In 1979, after 4 years of trials, the leader of the group of companies (Amway) won the lawsuit, while showing everybody that direct marketing is a legal form of business.

That trial completed the first stage of industrial growth of MLM/ Network Marketing systems; the American Association for Direct Sales reported 1 million distributors during the period 1979-1984. Other reports display an increase of over 5 million persons.

Following the example of the American success, Network Marketing companies expanded throughout the world, to Australia, New Zealand, Taiwan and Japan. Beginning with 1990, direct marketing reaches most of the world countries as the American companies were expanding more and more.

In Europe, the first company that used to work with several levels of distributors was founded in Great Britain, in 1970. Under the authority of the British Association for Direct Sales, in 1980, a series of companies came out, most of which having their origin in the U.S.A. From 1989 until 1994, the rate of British companies' development increased by 121%.

Worldwide, until the mid-1990s, direct marketing included a large part of the population from various under development countries in South-Eastern Asia, India, Africa, South America and Eastern Europe. While penetrating the international free market, in a fast-developing world, the new-comers made possible the incredible increase of this business.

Owing to the world-wide success, 60 million of people were caught in the wave of pioneering of Network Marketing within five years. In fact, these people have undertaken a work of improvement of their own social and material condition given by the work methods and the opportunities specific for the MLM system. Owing to the global approach of the system's extension the legitimate aspirations of the people in these regions of the world came true.

**Professionalism.** As a result of the expansion of the Network Marketing industry during the period 1979-1984, the increase of the companies in the U.S.A. turned to growing their affairs world-wide. While looking for new methods of development, the industry of direct marketing headed for telecommunication industry, which offered new technical opportunities. The new technologies for the transmission of information enabled a safer and more rapid communication, which transferred the offer directly to the consumer and the order directly to the producer.

While acquiring the newest technological developments, companies offered consumers superior communication facilities, through direct orders and home product deliveries. Such a system enabled the distributors to specialize in the prospection of consumer market and in developing collaborators networks. This specialization has determined the change of the strategy for building the networks, transitioning from a *product sale* business to a *professional skills* business. Owing to this reason, the cycle was called the professional stage.

The result of this development could be seen in the success of the companies that approached the new development strategy. During 4 years, at the beginning of the '90s,

5 million people joined Network Marketing! This is the equivalent of 3.5% of the population of the U.S.A.

**Computerization.** Owing to the fact that marketing, by reference, is the most perfect method for acquiring new consumers, in the age of Internet digital communication, there is no reason for a decrease of the industry of direct sales. We have already witnessed an increase of the development of Internet electronic commerce (called *e-marketing*), to the detriment of other forms of classic commerce, including teleshopping. There is a large number of companies that have initiated and developed Internet direct sales businesses, relying on the method of affiliating the consumers to a performing system of presentation and home delivery of the products.

**Globalization.** The main characteristic of this cycle of the direct sales industry is the coming out of a new profession, just like the profession of a doctor, lawyer, instructor, pilot or designer is. We are talking about the profession of “networker”.

The activity carried out by a “networker” is called “networking” or the carrying out of the MLM/Network Marketing method as part of a trade activity. This new profession, most of the time carried out in one’s spare time or besides one’s job, requires a solid technical knowledge, skills, personal motivation and the complying with a code of professional ethics.

Most of the Network Marketing distributors accept as obvious the fact that they should become professionally competent. Training and professional improvement represent nowadays the number one priority of the programs for building distribution networks.

### 1.3. Situation in Romania

Eastern Europe is a region under full economic and social change, where both real and correct informational data are rather hard to get. Due to this reason, we gathered data through the goodwill of the companies-member of the Romanian Direct Sales Association and MLN International Romania SRL in Cluj-Napoca.

**Brief history.** At the end of 1990, after the fall of the communist dictatorship, the systems of network marketing came out through the entering on the local market of a series of individual life insurance agents from Austria, who were collaborators of Safe Invest holding, an insurance broker operating a MLM distribution system in insurances. This company that entered Austria around 1985 took over the work methods specific for MLM from a German company, Hamburg-Mannheimer Versicherung, which, from 1980, is still working.

The precarious economic conditions, the lack of proper legislation, people’s reluctance to a business on its own have considerably hindered the official starting of this kind of companies.

For 4 to 5 years, rather shy collaborators from Italy, The Netherlands, Hungary, Germany and the U.S.A. have entered the market, who tried, on their own, to build networks for various companies (Herbalife, Amway, etc.), while distributing cosmetic products, cleaning products or nutritive and health products. The largest part of these activities was carried out barely legal due to the fact that none of the providing companies was registered in Romania.

In 1994 the first MLM companies are officially registered in Romania (Safe Invest Romania, Zepter, Saveco Romania, GWC), while several years later the large Network Companies come to Romania, too: Oriflame, California Fitness (today Calivita), Amway, Golden NeoLife Dinamite, Carion, Forever Living Products, AVON, Eurolife, etc.

Meanwhile, a series of local MLM companies come out, which try to emulate the success of the well-known ones, yet, without significant results, due to their lack of management capacity and experience.

If, in 1998, the number of collaborators represented about 60,000, at the end of 1999, there were about 125,000 people directly involved in the system. We have only considered the active persons in the system, namely the distributors of direct marketing.

In 2003, more than 25 Network Marketing companies tried to develop their market within an economy in full reform, while permanently offering what no other industry in Romania can offer: jobs.

Each collaborator who entered the system *had the great opportunity to become the master of his/her own business, to own a safe job and to earn earnest money.*

Meanwhile, let's notice press indifference to promoting such systems, which might be explained through the confusion determined by illegal pyramidal sales (e.g.: the infamous Caritas or, more recently, Dinamica Elit or Delfin businesses).

With these in view, Romanian Direct Sales Association (RODSA), founded in 2002, set forth as its main objectives *mass-media* informing and educating with regard to the true knowledge about this industry. Also, one of the most important roles of the association is its involvement into Romani's social and economic life through fighting against the proliferation of illegal pyramidal systems and in favor of harmonizing Romanian legislation for an ethical work environment.

## 2. CLASIFICATION OF DIRECT MARKETING SYSTEMS

The studies made by several authors show that marketing planning is known under various designations and bears various significations. Thereby, *Don Failla* employs the term of "*rewarding along a multi-level structure*", *Peter Clothier* speaks about "*a hierarchy career in MLM*", *Dan Marius Dumitras* about "*a success scale*", owing to the resemblance of distributors' rewarding stages to a scale to the top of the hierarchy, while Mark Rawlins speaks about "*multi-level communication*".

D. M. Dumitras introduces the terms of marketing characterization in accordance to the nature of the classification conditions and hierarchy promotion:

1. *Plan of dynamic marketing*, where the promotion and maintaining of the position is determined by acquiring a certain score each month,

2. *Plan of static marketing*, where promotion does not depend on a time interval as points accumulate beginning with the entering into the network, while unconditionally preserving the position on the hierarchic scale.

Owing to the fact that the promotion of distributors along the stages of the marketing plan is made based on the point-value system relying only upon the distribution of products or services, each distributor may multiply his/her points

through creating his/her own network of distributors, who form, in their entirety, a marketing network. In accordance, each distributor owns an independent way for promoting and multiplying earnings, the size of whom being influenced by the size of his/her own marketing network.

This entire structure, an independent entrepreneur network, is coordinated by a MLM/Network Marketing company, based on its plan for rewarding distributors and on its own policies for promoting distributors along the hierarchic scale.

“The great revolution in guiding products consumption is distribution, which is represented by direct sales from producers to consumers, while eliminating wholesalers, warehouses and retail sale shops.”

Life, indeed, showed that producers understood the importance of transitioning from the system of classic sales (according to which consumers go to shops) to the system of direct sales (according to which shops go to consumers). The mechanism that has determined the changing of producers’ concepts was the coming out of direct-sale distribution, from person to person.

Direct sales are divided into two categories:

1. Unilevel direct sales
2. MLM from Multi-Level Marketing, which also bear the name of Network

**Marketing or direct marketing.** Owing to the fact that direct sales distribution has turned into an industry, while surpassing production-industry itself in terms of economic importance, people are used to speak about the industry of direct sales or the MLM/Network Marketing industry.

The development of direct sales industry, compared with the degree of representation in economy, occurred through successive cycles including period of *initiation, ascent and decline*, which resulted in a positive global tendency.

During the last decade, direct marketing has become the industry with the most dynamic development in the world. The World Federal Selling Association has calculated that, between 1995 and 1997, the number of the individuals involved in direct marketing worldwide increased from 15 to 29 million (14 million in 2 years). The growth rate represents, at present, over 200 thousand new collaborators per week.

### 3. HOW DOES DIRECT MARKETING FUNCTION?

Further, we are going to show the operating principles of the systems of direct marketing. The manner according to which these marketing systems should operate represents one of the main management topics in the field of direct sales.

From a management point of view, we should consider the difference between the manner of administering a company (where the manager is an entrepreneur) and the manner of administering one’s own business (where the owner of the business is an *intrapreneur*).

In accordance with Deakins, *an entrepreneur is the individual who owns the commitment and ability to assume reasonable risks with a view to succeed in business*. An entrepreneur plays the following 5 important management roles:

1. *Intermediary* – gathers the data required for implementing the opportunity of a lucrative business;

2. *Original* – discovers the sources displaying the potential of the business opportunity chosen;
3. *Innovator* – adopts new development technologies, while competing with other companies;
4. *Risk supervisor* – assumes bearable risks in order to reach profit;
5. *Coordinator* – administers resources, accumulated capital and adapts the system to the changes within the economic environment.

Furthermore, in accordance to Carrier, an intrapreneur is the person who is willing to assume responsibility with a view to carry out the tasks received from an entrepreneur. He/she displays the following 3 important features within the system:

1. An intrapreneur – develops the opportunity offered by entrepreneurs, through creating subsystems;
2. He/she is a distributor – helping the distribution of products and services or acquiring work methods and professional competence;
3. He/she is a sponsor – coordinating the activity of his/her work team through acknowledging values and developing a marketing network.

With a view to understanding the operating mode of the system of direct marketing, we are going to analyze the main activities carried out within these systems, at the interface between distributor and company:

- Sponsorship
- Legal collaboration
- Direct sale or recommendation
- Product distribution
- Sale price
- Training

The study of direct marketing systems has shown the fact that their structure is a *hierarchical* one, including *subsystems* whose elements define their *orientation*. As it turns out, the systems of direct marketing are *open systems*, which carry out a *holistic* policy of survival and success.

The system of direct marketing might be defined as follows: “*A method for selling goods directly to consumers through a network developed by independent distributors, who, at their turn, introduce other distributors, the income resulting from the profit of retail sales and wholesales, to which rewards based on the total sales of the group built by each distributor added.*”

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