

CHAPTER 3

INTRODUCTION OF CONCEPT AND DEVELOPMENT

3.1 The overview and development of direct selling and direct selling model

3.1.1 The overview of direct selling and direct selling model

In modern economic theory, direct selling is a marketing way to sell products directly from the manufacturer or distributor. The world direct marketing association defines the concept of direct selling as follows: direct selling refers to the way in which marketing personnel and consumers directly face each other directly in the place of non-fixed retail stores, and conduct product marketing by explaining and demonstrating to consumers. In September 2005, China promulgated the regulations on the "direct selling management", the third article of the regulation refers to the definition of direct selling: direct selling refers to the distribution mode of enterprises recruiting marketing (direct selling), selling products to the final consumers directly outside the fixed business premises, and stipulating that the payment to direct sellers can only be paid by direct sellers directly to the final consumers. So direct selling is a legitimate marketing method. People have an understanding of direct selling, and in short, it's a form of business that direct sellers sell to consumers directly to consumers. And "direct selling model" is by reducing the middlemen and reducing product circulation and meet the demand of the customer benefit maximization of an efficient way of marketing. This is a way to sell more of the middleman and the costs than the traditional distribution of distribution, and it lowers the price of the product, which makes both the consumer and the manufacturer benefit both.

There are three aspects of direct selling: one is the need for public consumption awareness, the other is the establishment and formation of one-to-one relationship, and the third is the on-site demonstration to promote sales. Since there are no additional costs for the distributors and the inventory, it's the direct seller directly with consumers face to face, which makes it more affordable for the firm and the consumer.

3.1.2 Characteristics and classification of direct selling

The direct selling model has the following important characteristics:

(a)Direct selling

The most important feature of direct selling is to reduce the middlemen such as dealers, agents and wholesalers. The sales of products have realized the process from the manufacturers directly to the customers. Such management process can help to save the intermediate costs of agents, wholesale and retail, and facilitate the circulation of information, which is conducive to the company's in-depth understanding of market information and the more effective implementation of market policies.

(b)Network organization construction

Another important feature of direct-selling companies is the construction of networks, which use the Internet to organize the expansion of direct sales personnel. The direct seller develops the line through his own referrals or indirect references, creating his own network distribution department. Due to the strict network management system developed by the direct selling company, the development of personnel and the reward of calculation are more effective in management.

(c)Multiple level of remuneration method

Rely on the network that builds, direct selling company executes the way of multilayer. Direct sellers can not only get paid for their own sales, but also get a certain percentage of bonuses in their direct referrals or indirect referrals. In essence, the multi-level payment method is the foundation of direct selling company, but the payment method of each direct selling company will be slightly different.

(d)The transformation of the role of direct selling personnel

In the direct selling company, direct sellers is not only the personnel engaged in sales operations, in fact, they are the biggest consumers directly. According to statistics, the product that direct seller consumes (in order to handle direct seller's procedure) accounts for more than 70% of the total sales of the company, and the reward that they receive is also the benefit of its consumer product.

(e)Demonstration and presentation of products

In general, direct sellers will give demonstrations and explanations to consumers according to their own experience. Including the functions, ingredients and utility of the products, the on-site product demonstration will be delivered to consumers more information, which will help consumers understand the products and improve the sales of products and the confidence of consumers to buy products.

(f)Conference of direct selling companies

Direct selling companies have different types of meetings, such as product presentation, business promotion, and high-level seminars, etc. Through business explanation, experience sharing and various ideas promotion, it can increase the familiarity of direct sellers, which is also an important means to publicize the company and recruit new direct sellers. It's also to through dialogue with senior leaders, tourism, and other forms, to motivate and improve direct seller of its business.

(g)No store sales

The sales location and time of direct selling are generally not fixed and can be sold at any time and place. Direct selling places such as street, home, work place, etc. And door-to-door sales are the main form. The time of sale can be determined by the time between the seller and the customer. It's a sales model that works for some of the people who need to work part-time, and it's easy for the consumer to shopping.

There are two kinds of classification of direct selling:

(A)Single-level direct selling

Single-level direct selling means that the sales layer includes no more than three levels of direct selling system, and direct sales personnel sell the goods to consumers directly from the manufacturers.

(B)Multi level direct selling

Multi-level direct selling is also called structure direct selling, which refers to the direct selling system with more than three levels of sales layer and management level. There are two kinds of multi-level direct selling incentives: the first is to get a marketing bonus through the product and service that they sell to consumers; the second is to earn a commission from the sale of directly under line.

(C)The comparison between single-level direct selling and multi-level direct selling

The same point: it is the sales of people, who can provide the direct sale people with entrepreneurial opportunities.

The difference: single - level direct sellers are usually only responsible for sales, and the after-sales work is done by the relevant departments of the company.

Multi-level marketing adopts multi-tiered bonus system, with independent middlemen, whose management process needs to be completed independently and can be developed offline. The advantage is that every marketer can earn a bonus from the

new marketing personnel, in addition to the profits generated from the sale of goods, and the total sales of the lower line of the new group directly under the lower line or directly under the lower line. The direct underwriter may be a full-time or part-time person.

3.1.3 Direct selling channels

The direct selling channel belong to the sales channel of non-store sales, but sales ways mainly have the following two ways, as shown in the figure below:

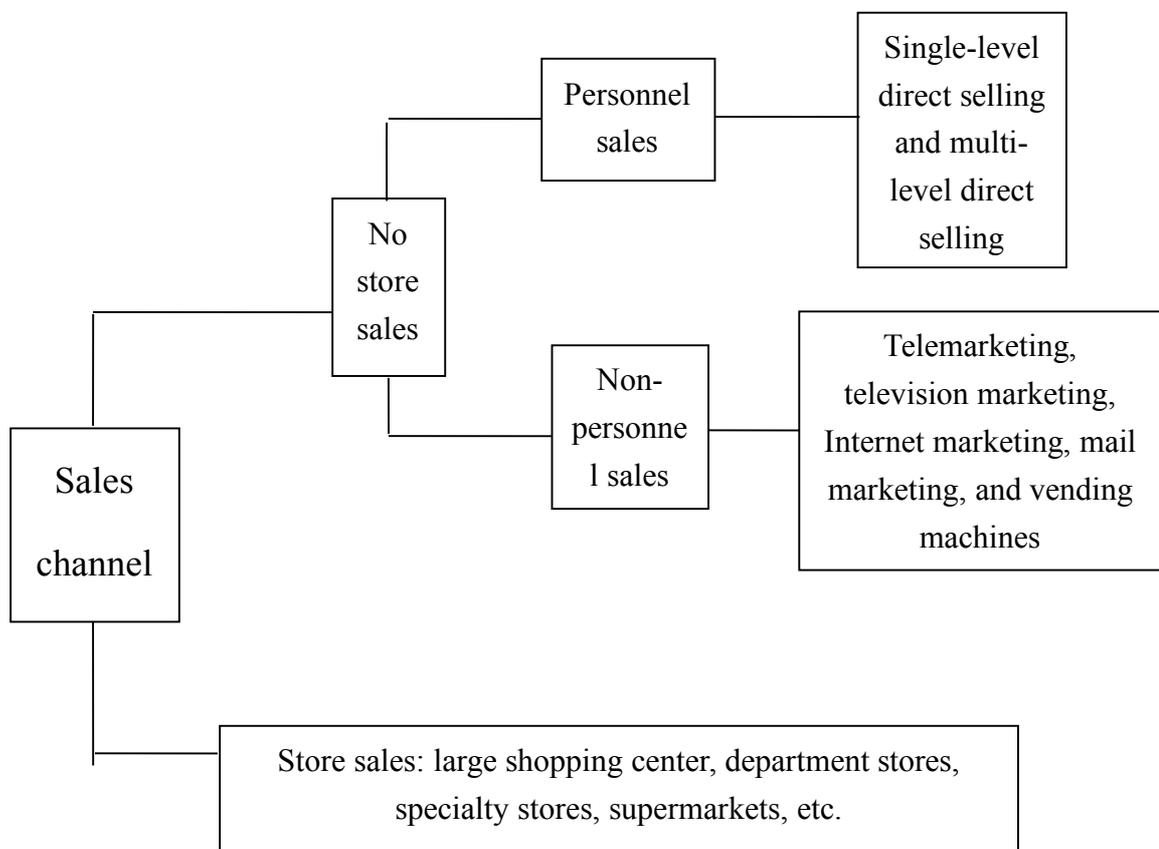


Figure 3-1-3 Two ways of selling channels

(Source: <http://wapbaike.baidu.com/item/>)

3.1.4 The difference between direct selling and pyramid selling

The illegal pyramid is that the people who stop or the experiencer pass the development and the lower line, to form a relationship with the organization manager,

and the following line of sales figures to calculate the payment, which is actually a change in the cost of the money to get the illegal benefit, to disrupt the economic order, to affect the behavior of social stability.

The apparent characteristics of pyramid selling:

(a) There is no use value and value of pyramid selling goods, and the price deviates seriously from the actual price of the commodity itself and the fictitious service project;

(b) The benefit of the participation is not from the reasonable profit of selling the product, but to the cost of the development of the person who was involved in the development of the product.

The following is the difference between direct selling and pyramid selling, as shown in figure shown below:

	Legal direct selling	Illegal pyramid selling
corporation	There is a legitimate direct selling license, the enterprise image is good, has its own shop.	It is an illegal marketing activity, without its own license plate, poor corporate image, no name recognition, no special shop.
production	The business scope is a legal product, there are many varieties, and the quality is excellent. The enterprise can produce by itself, with reasonable price and with certain international fame. The product has return guarantee.	A low quality products with high price, without their value, enterprises cannot produce themselves. And the product can't be returned or returned with severe conditions.
Management and regulations	The direct seller, through the assessment, sell their products and earn commissions and differential bonuses based on their performance. The system is reasonable and fair, and the real work is	The illegal pyramid selling requires the development personnel to enter the line to collect the goods deposit, the high "entrance fee", the number of heads to get

	achieved.	the commission. Pyramid structure, the sooner you join, the better, but without labor, the act of coercion, fraud.
Fundamental purpose	The ultimate goal of direct selling is to customers, to trade goods with customers, to achieve profits and bonuses through performance.	The fundamental purpose of illegal pyramid selling is to unrestricted development personnel and to charge "entry fees" through the development of larger teams.

Figure 3-1-4 The difference between direct selling and pyramid selling

3.1.5 The development of the direct selling industry in China

The business model of direct selling entered China in the early 1990s, and its development has experienced four stages:

First, the rising stage ——Former direct selling era (1990-1993)

In 1990, the establishment of China's first Sino-US joint venture, Guangzhou Avon products co., LTD., it marks the official entry of direct marketing into our market. The success of Avon and its initial operation has been a strong demonstration. Then some of the country's corporations followed.

In 1992, Amway China Daily commodities co., LTD officially entered China. The product offered by Amway company is characterized by that the products were "not returned for full payment" according to the Amway company. However, no matter the reason, if the customer feels dissatisfied after the use, the company will be fully refunded by Amway if the empty bottle is still in use. This system has been in operation for a long time in the United States Amway company, has been Amway company's reputation and brand symbol, return rate is very small.

Second, chaotic management stage (1994-1997)

With the introduction of the direct selling business model, it has been used by some unscrupulous people, to conduct "pyramid fraud" and illegal pyramid scheme, to disrupt the market order, to severely damage the consumer's interests, and to the public security and stability.

Third, prohibit pyramid selling and foreign direct selling enterprises transformation specification stage (after 1998)

Due to the immature market development in our country at that time, the way of direct selling is not well understood, the supervision method is not perfect, and the desire of some people to get rich quickly is urgent, which leads to consumers being deceived and giving illegal direct sellers an opportunity. In the face of the increasingly serious illegal pyramid selling activities to the social stability and consumers' rights and interests, our government has resolutely adopted a strict ban on pyramid selling measures. In 1998, the state council issued a notice on the prohibition of the sale of business activities and the notice concerning the transformation and sale of foreign investment in pyramid selling enterprises, and approved the transformation of 10 foreign direct selling companies such as Amway, Avon and Mary Kay in the United States into the operation of the store operation and the employment of salesmen.

Fourth, the opening of direct selling market and direct selling regulations formally launched stage——New direct selling era(September 2005)

According to the development of China's economic growth and the development of diversified circulation modes, and the implementation of relevant WTO commitments, in September 2005, the state council promulgated the regulations on direct selling administration and the regulations on the prohibition of pyramid selling, which was formally implemented in November and December of that year. On July 12, 2006, the newly established direct selling supervision bureau was established under the state administration of industry and commerce. The promulgation of the two regulations marks the new stage of the opening of China's direct selling market and the legislative process of direct selling.

Direct selling in the emerging market economy of China, was once a sensitive concept. In the late 1990s, due to the interference and destruction of illegal pyramid schemes such as "mice and rats" outside China, consumers were deeply disgusted. In 1998, the state council ordered the cessation of all pyramid selling activities in China. Since then, the whole Chinese direct selling market has been in crisis. In 2002, after China joined the World Trade Organization, on the basis of full consideration of WTO members' opinions, it expressed the legislation on the issue of direct selling and

made legislative investigation on the drafting of the provisions on the direct selling business of foreign-invested enterprises. In September 2005, the regulations on direct selling was promulgated and implemented in December. The promulgation of direct selling laws, which will ensure that many of the businesses that are in direct selling industries, are guaranteed by the law, that the spring of China's direct-selling industry has arrived.

The direct selling industry has been in China for more than 20 years. After years of development, the direct selling market in China has gradually matured. Direct selling can successfully enter China, showing that it has certain advantages:

A. The employee of the direct selling is not subject to the restriction of age, and is not restricted by sex, and the retired and retired people can be engaged in the retirement or retirement of any man, young man, middle-aged or aged person.

B. Direct selling industry is a non-store sales business, which is not restricted by funds, and does not need to have certain funds to operate.

C. The direct selling industry is not limited by educational qualifications and talents, and there are no restrictions on the ability of high and new technology and management.

D. Engaged in direct selling industry, can not be bound by time, can be professional, also can part-time work.

E. The direct selling industry can avoid being abused by the boss. The direct selling industry is a profession that is directly linked to the salary and performance. It can realize the real meaning of multiple labor and distribution. It is also a kind of family business, where the husband or wife is engaged in direct selling, and the children can help promote sales.

F. The direct selling business can excavate the potential of the person, train the talents of the person, and develop a positive and progressive mental attitude.

3.2 Introduction and development of Amway company

The Amway company, located in the grand fast city, Michigan, is the largest direct-selling enterprise in the United States, and was founded in the basement in 1959 by Mr. Steve Van Andel and Mr. Richard DeVos. According to the official web site from the Amway company, Amway is a multi-level direct selling company that manufactures consumer goods.

It started with a partnership between two founding partners, Mr. Steve Van Andel and Mr. Richard DeVos, who had a modest desire to make more money for their families, and started a little soaps business. So, the story of Amway begins with a little piece of soap. Throughout the 1950s, both founders were looking for a new product to expand their business, and finally decided to produce a multi-purpose concentrated cleaner, which was welcomed by millions of housewives. Since then, Amway has launched the home care products, which has been popular in the us market since its launch, and has opened up a new business in Amway. In just a few short years, Amway's employees have been more than a thousand people, over 200 products, and a rapid growth in sales, over half a million dollars.

In 1963, Amway set up its first foreign branch in Canada, and the Canadian branch was born, which was the beginning of Amway's growth as a multinational enterprise. Then, in May of 1971, an Australian branch of Amway was established outside of North America, and the opening of the first branch of Australia was a sign that Amway was starting to join the international multinational corporation. Amway Asia Pacific is set up first branch company in Australia, is now owned by Amway products in Australia, New Zealand, Asia, Thailand, Brunei, mainland China and Hong Kong, Macao and Taiwan with the exclusive agency, headquartered in Hong Kong, China.

Amway company is stepping on the wave of China's reform and opening up, with the ideal of adding color to more people's life, and entering the Chinese market. In 1991, one of the founders, Mr. Richard DeVos, went to Beijing with his wife to learn about the environment and feasibility of Chinese investment. In 1992, Amway (China) limited was established in Guangzhou and became one of the first direct selling companies approved by the state administration for industry and commerce. Amway (China) company is not like other companies direct import business model, in line with the good faith management, the long-term based on enterprise strategy, spent nearly three years on production base of infrastructure construction. In 1995, Amway (China) daily necessities co., LTD., it was officially launched in Guangzhou, at present, the business area has spread all over the country 31 provinces and autonomous regions. In order to cooperate with China's national conditions, since July 1998, Amway China has been operating in the way of "store sales plus direct seller", selling Nutrilite health food, Artistry beauty cosmetics, personal health care products, home care products and furniture durable queen's gold pot, etc. At the same time concurrent research, development, production, the main products are mainly health care products. Amway (China) company sales of nearly 22 billion yuan in 2010, Amway China has become the

world's largest market.

Amway has had a successful transition from the first generation of leaders to the second generation, and with the co-leaders of the second generation of leaders Mr. Steve Van Andel and Mr. Richard DeVos, it has opened a new chapter, and also has created a new opportunity for more people to start a business. What they found in the process of starting a business is something that was so deep and so important to this day that people and relationships were the core of any successful business, and with the trust of the client, there would be an endless supply of business. Their continued entrepreneurial spirit has been a model of the corporate world.