

June 20, 2014

## Technology Breathes New Life Into Direct Selling

*By Molly Prior*

When you pair late-night talk-show host Conan O'Brien with direct-selling stalwart Mary Kay the resulting footage is bound to go viral.

O'Brien visited Mary Kay's Dallas headquarters to receive training from a consultant, and later donned a black Mary Kay "beauty coat"—"It feels like maternity wear for a ninja," he said—to attend a house party, where he told guests sitting around a dining room table, "No pressure, but I need to leave this house with \$25,000."

The cringe- and laugh-inducing video, which aired on Conan in April, has garnered more than 650,000 views on O'Brien's "Team Coco" YouTube channel, and its impact on Mary Kay has been equally as sizeable.

"We saw an amazing pickup in social media," says Sheryl Adkins-Green, chief marketing officer for Mary Kay Inc.

O'Brien gave Mary Kay a glimpse of the power of going viral. But Mary Kay is no newcomer to the digital landscape. The company, along with many of its peers, is embracing digital technology—the very thing that many once predicted would lead to the demise of direct selling—to recast the channel as viable and vibrant.

The notion of selling door-to-door has been replaced by sales representatives wielding smartphones, iPads and mobile credit-card readers.

Technology has widened a seller's potential customer base from her town to far beyond, thanks to the reach of the Internet and the marketing power of social media.

The changes are prompting many new companies to launch in the space and literally redefine the channel, choosing phrases such as "social selling" or "social commerce" in lieu of direct selling. Even Avon Products Inc., one of the largest beauty direct sellers, is looking at its business in a new way.

"We are trying to build social shopping with a true service model," says Angela Cretu, group vice president of Eastern Europe and Turkey at Avon. She explains that by enabling online shopping and a host of mobile platforms, Avon aims to cater to time-starved representatives and consumers, and also build its sales force with younger women.

Avon and others, including Mary Kay, Amway and Nu Skin Enterprises Inc., are all working to integrate digital into their selling platforms. Meanwhile, an influx of newcomers—namely Rodan + Fields, Katherine Cosmetics, Willa and Beautycounter—are choosing direct selling as the most effective channel to reach consumers, incorporating digital capabilities to communicate their brand message in a way that many say retailers simply cannot for a developing brand.

“Our story is best told person-to-person and not in a traditional retail environment,” says Gregg Renfrew, founder and chief executive officer of Beautycounter, a company dedicated to offering skin-care products free of parabens, phthalates, synthetic fragrances, PEGs and other ingredients.

Rodan + Fields shifted from a retail strategy to a direct-selling model in March 2008, after founders Kathy Fields and Katie Rodan, both dermatologists, repurchased the brand from the Estée Lauder Cos. Inc. the prior year. This past February, Willa, the three-year-old natural skin-care range tailored toward young girls, pulled its products from 350 retail doors—including Target, Henri Bendel and Harrods—to launch in the direct-selling channel. “I wish I had focused on this channel from the very beginning,” says Christy Prunier, founder and ceo of Willagirl Inc., who notes the idea for direct selling came after the brand tapped a young girl to talk about the brand at Bendel’s and the results were “electric.” The girls were exchanging Instagram and Twitter information. “Girls don’t want to be sold something. They want to learn and discover new things from their friends,” says Prunier. She says that since the switch, Willa is growing 30 percent faster in the direct-selling channel than in retail doors. The company currently has a cadre of 42 teenaged “Willa Girls” who mirror the brand’s target demographic of 12- to 22-year-olds.

For newer companies, the direct-selling model is particularly attractive. As Amy Robinson, senior vice president and chief marketing officer at the Direct Selling Association, points out, it requires much lower overhead than working with retailers, it can generate robust cash flow and the products benefit from demonstration and personal endorsement. “Beauty is a great example of why direct selling works,” she says. “At a party, you can turn to a friend and say, ‘How does it look?’”

But a gathering of friends is not the only option for sales representatives these days. There are virtual parties, one-on-one consultations over a mobile device and of course e-commerce sites, where the end customer can order a product directly from the company. (Most companies, but not all, require customers to link with a nearby sales representative, who will receive commission on the sale.)

“Direct selling is increasingly relevant now because of the social aspect around selling, particularly through social media,” says Wendy Liebmann, chief executive officer of WSL Strategic Retail. “It’s the ability to find a like-minded group of consumers who are passionate about the category and to create a place where they can experience a brand either virtually or face-to-face.” For the companies involved, she points out, it’s a relatively low-cost start-up operation.

“We knew a long time ago that people weren’t answering doorbells as women went to work,” says Liebmann, who adds that whether it’s a physical interaction or a digital one, the essence of direct selling is the same. “It’s all about the connection,” she says. Liebmann named monthly subscription or auto-fulfillment concepts such as Dollar Shave Club and the online hair-color company Madison Reed, and paid sampling sites, such as Birchbox, as modern outgrowths of the direct-selling channel.

Established beauty direct-selling companies are looking to fully incorporate digital capabilities throughout their businesses.

Mary Kay, for instance, has invested in an online makeover app, which allows women to virtually try on thousands of makeup looks, hairstyles or accessories. The app is accessible across all mobile platforms, says Adkins-Green. The company allows consumers to shop via its Web site, select a consultant through a local-consultant locator (for the purpose of distributing commission) and have the products shipped directly to them. The company, which has more than 3 million consultants, also hosts Twitter parties, in which global makeup artists offer advice to Mary Kay social media followers. Its sales force can utilize the available technology to present a skin-care class, for instance, using an iPad.

The company is also active on Facebook, Pinterest and Instagram, with more than 6 million global followers, says Adkins-Green. She notes that over the last two years Mary Kay has worked to modernize and expand its product line with a particular emphasis on attracting younger women, with additions such as the skin-care line Botanical Effects.

Amway, which sells nutritional, beauty, personal care and home products, has created a number of assets for its more than 3 million sales representatives, or distributors, as it refers to them. They include videos, commercials, online evaluations, podcasts tailored for various products and compare-and-contrast information. “We’ve developed responsive design,” says Candace Matthews, Amway’s chief marketing officer, explaining that the company ensures that all its creative is compatible and consistent across all screen sizes and platforms. “We create assets that can be easily translated across the globe,” says Matthews, noting that Amway is attracting legions of young distributors. More than one-third of its distributors are under the age of 35, according to the company, and most sell across all Amway’s product categories. The company’s skin care and color cosmetics brand Artistry utilizes a blog, Facebook and Twitter. Maud Pansing, Amway’s vice president of beauty, says, “The Amway business owner often uses Facebook as a platform to start building the home market, and then expand from there.”

Consumers are able to order directly from the company’s Web site. Once there, they are asked if they’d like to be connected to a distributor. If they choose not to be, the commission will be shared among consultants in that particular area. The company said that more than 90 percent of orders are placed online.

Avon envisions digital as the gateway to an entirely new channel: social shopping, which Cretu sees as the combination of e-commerce and direct selling. In Central and Eastern Europe, the company is working to make a suite of digital resources available to its sales representatives that would allow them to sell from any mobile device. The technology—which includes a selling app and robust online development, is slated to roll out to the Middle East and Africa later this year, says Cretu. She notes that there are areas where Avon can ship products directly to the consumer, but that it depends on the direct-selling rules of each country. “The ultimate goal is to provide the same type of experience,” she says.

Cretu says that in Central and Eastern Europe, Avon has a key focus on the youth generation, and has adapted its tools and training specifically for this age group.

Rodan + Fields also is using digital technology to tap into a social connection as it builds its business across the U.S. “It starts with people and community and then the product populates from that,” says Lori Bush, president and ceo, who emphasizes that Rodan + Fields is first and foremost a skin-care company. “The aspect of community is a real important part of the

recruitment.... We actually think the term direct selling is too limiting. We call it social commerce.”

Each of its more than 50,000 consultants rely on two Web sites, a personal Web site to manage their business and a product Web site. The company employs social media to spotlight products, but also to showcase perks earned by the top performers, such as trips to Napa Valley, gifts and a white Lexus. Rodan + Fields also provides social assets that consultants can customize and then post.

“I see this as crowdsourcing our marketing program,” says Bush.

The company has its eyes on international markets, and is in the exploratory phase of accessing several Asian countries.

As several large direct-selling firms can attest—with Nu Skin, Avon and Amway among them—growth and international reach can sometimes bring big challenges. Regulations on direct selling vary country by country, and the perception of the channel is not always a favorable one.

The troubles of several direct sellers have been very public over the last several years. Activist investor William Ackman of Pershing Square Capital Management has spent the last year and a half asserting that nutritional supplements direct-seller Herbalife Ltd. is a pyramid scheme. In March, the firm revealed that it received an inquiry from the Federal Trade Commission, and stated it will cooperate fully with the FTC. Nu Skin, which sells the AgeLoc skin-care range, launched its own internal review of its China operations following reports from the Chinese newspaper People’s Daily in January that questioned the direct seller’s recruiting and selling practices. That same month, Nu Skin also voluntarily suspended business promotional meetings and applications for new sales representatives to fully cooperate with the regulatory reviews. The company resumed promotional activities in China on May 1. Truman Hunt, Nu Skin president and chief executive officer, told analysts during the firm’s May earnings call, “With respect to China, our team took aggressive, proactive steps to address media and regulatory concerns in a timely manner.”

Avon is still trying to reach a settlement with government officials tied to its six-year foreign bribery probe in China and other countries, and in late May, Amway India’s ceo Bill Pinckney was arrested on charges of violating laws protecting consumers from fraud. Amway stated the arrest was “unjustified and unnecessary,” adding “Amway India and Mr. Pinckney have always cooperated with investigative authorities and abided with standing judicial orders.... The complaint against Amway contained numerous false statements and showcases a lack of understanding about our business.”

Whether true or untrue, those are the type of allegations that newcomers to the direct-selling space are working to distance themselves from. As one direct-selling executive points out, many companies are either too focused on recruitment and not enough on product, or they are too focused on product and not on building and maintaining their sales force.

Annie Finch, founder and ceo of luxury direct-sales beauty brand Katherine Cosmetics, prefers the term “social selling” over direct sales, too, and says the company is not a multilevel organization. Formerly a veteran executive at the Estée Lauder Cos., Finch says going the direct-selling route allows her to focus on the product and the people. “It’s not direct selling where you

buy product and store it in your garage,” she says. Katherine Cosmetics relies on “makeup stylists” to present the collection at trunk parties; they receive a 20 percent commission on each item they sell. Finch notes that the company interviews and trains each potential stylist. Once approved, the company provides her with samples, business cards and a full line of testers and products for free. Each stylist also uses a Square Reader, or mobile credit-card reader, to facilitate sales. The company, which launched direct selling in August, currently has 25 stylists and expects to reach 50 by yearend and 500 in four years time. “I wanted to avoid the quality perception. Direct-selling companies don’t always look at the end consumers. I care about the person who is putting on the products,” says Finch.

Prunier of Willa says newer firms have an advantage on the digital front. “The mobile piece of this is so critical. A lot of companies are playing catch-up, but that’s where we started,” says Prunier, noting that the Willa Girl can conduct business on a desktop or any mobile device. They also are armed with Square Readers, microsites and virtual party capabilities. The sales model allows the Willa Girl to build a team, which helps young women develop skills such as training and public speaking, says Prunier.

Renfrew of Beautycounter chose direct selling to educate consumers about what she says are harmful chemicals found in many personal-care products. She declares that Beautycounter is about information first and products second. Renfrew launched the Web site in March 2013, after taking four years to formulate her line. To date, the company has 23,000 independent consultants, some of whom work on teams and others who work directly with the company. But consumers can also shop the site and choose whether or not to link with a consultant. “We allow our customers to shop in the way that they prefer,” she says. “People want to be able to approach companies and businesses through multiple touch points.” Renfrew adds, “We tried to create a platform where women can be entrepreneurial, contribute to a social mission and earn money.”

Beautycounter does events across the country and has also struck high-profile partnerships. It partnered with Gwyneth Paltrow’s Goop, creating a pop-up shop in Los Angeles in May, for example.

Regardless of size, the elements of a successful direct-selling enterprise remain the same.

Wall Street analyst Mark Astrachan at Stifel says, “You need to offer a higher quality, aspirational product and the right income-generating opportunity.”