

---

## DIRECT SELLING: A DISTRIBUTION CHANNEL GENERATING JOBS IN RUSSIA

N.V. Guilluy-Sulikashvili, Jean-Marcel Bloch

Lille Catholic University in France  
60 bd. Vauban, Lille 59016, France

The goal of this article is to demonstrate that the system of direct sales, when viewed in an economic context, is an effective distribution channel that generates jobs and facilitates upward mobility in Russia. When compared to classic distribution systems, including large-scale distribution, small commerce and industrial enterprises, the system of direct sales relies more heavily on the human component. The system has proven to be very effective in Russia, where it has contributed to the development of a new model of capitalism. This new model is more social and based on human relations without the hierarchical constraints which characterize a more traditional profit-based capitalism.

**Key words:** direct selling, network marketing, job creator in Russia.

**Introduction.** For years, Russia has been under the spotlight in the news. Political changes, economic dislocation and the scale of the social crisis have had an impact on public opinion. In a very short period of time, Russia went through considerable economic adjustments. New distribution channels are firmly in place and have outlasted the crises of 1998 and 2008. In this new economic environment, direct selling has been introduced onto the Russian market and has become a distribution channel which has since experienced exponential growth.

Through the present article, we wanted to demonstrate how the socio-economic context in Russia has been shown to promote the accelerated development of direct selling. Direct selling, the third distribution channel, has worked its way up to the same rank as other distribution channels. The fact that Russia stands in 9<sup>th</sup> place for markets in the millions, with sales figures of \$2,9 million, and that it is the 4<sup>th</sup> global market according to the number of distributors, with 4,4 million distributors, owes itself to the specific economic context [1]. In this context, the rise of the market economy has caused job displacement and has lowered salaries. Direct selling seemed to provide the means to become self-employed, the opportunity to determine what shall be done with one's work time and the possibility to ensure steady earnings. With the change-over to the market economy, a new management model was born which brought in the use of modern mechanisms and methods such as network marketing with segmentation, custom tailoring and targeting potential consumers.

We shall first start by giving a definition of direct selling and by explaining some of its development perspectives as the third distribution channel. We shall then give a brief historic summary of the changes which took place in the socio-economic context from the break-up of the former USSR to the present in order to underline the characteristic features of the Russian context. We will finish by proving that direct selling plays an important role in generating jobs and that it has especially expanded in regions where the unemployment rate is particularly high.

Direct selling research is associated with the research that goes on in the domain of network marketing. This subject has been studied by the following Western researchers: Tim Ambler [2], Philippe Kotler [3], T Osenton [4] Jacques Couderc, Marc Schweizer [5], Jean-T Auer [6], Antonio Carrozza [7] and Benjamin Rousseau [8].

The Russian school of research in this domain of network marketing is still very new. L. Basovskij [9], M. Mukhina [10], E. Popov [11], E. Golubkov [12] and other Russian researchers have made great contributions to the development of network marketing research in Russia. Most of their work deals with networking organising rules, multiple levels of organisation, consumer behaviour and seller-consumer relations. Nevertheless, we have noticed that direct selling in Russia has yet to be sufficiently studied. In Russia, direct selling can be viewed as the third distribution channel, generating jobs and facilitating upward mobility. The Russian example of exponential development in direct selling shows the way to a new model of social capitalism which stands in contrast to the solely profit-based financial capitalist model.

**1. Direct selling, the third distribution channel.** Direct selling is a distribution channel which stands alongside other systems of distribution; that being store sales, including small trade as well as big business, and distance selling (e-commerce, mail-order retailing and teleshopping). Direct selling corresponds to the 3<sup>rd</sup> channel of distribution. Companies will opt for this choice of distribution depending on their different marketing parameters and on how much they want to control their marketing development. Companies that choose to adopt this distribution channel avoid the constraints of classic distribution channels, build up their own image and make themselves known in their own right. In this way, companies create their own distribution network. They free themselves from extra spending because there is no more need to pay the middleman, and they no longer have any need to rely on publicity campaigns in order to make themselves known or recognised by the public [13].

This form of distribution means having greater contact and being more in tune with clients. It allows companies to optimise their marketing actions through a better understanding of their clients. This in turn allows them to enter the market better because it encourages meeting consumers right at their home, even if that means going as far as a village well out of the larger cities. Direct selling assures that products which are completely innovative, technical or which require demonstration before using make it onto the market. The product most often needs to be presented, explained and demonstrated in order to help the consumer in his purchasing decision. The most well-known example is that of Mr. Tupper's famous plastic box for which direct selling was solely responsible for seeing it made known (Tupperware Society).

Today, in Russia, individual entrepreneurs (independent distributors) build up large service or product distribution networks with consumers; they use the channel of direct selling. These entrepreneurs rely on contemporary management, marketing and consumer psycho-analysis methods. The first direct selling companies in Russia appeared during the years 1992—1993 when the country was really opening up to market economies. We shall take a close look at the economic conditions and reasons behind the rapid development of direct selling during this period.

**2. Change in Russia's economic system or factors allowing for the development of direct selling.** When the white, blue and red flag of the former Russia appeared on top of the dome of the Senate at the Kremlin on December 25<sup>th</sup>, 1991, after the lowering of the Soviet Union's flag, a new country was immediately in full expansion; the Russian Federation had effectively replaced the Soviet Union. This new country was undoubtedly marked by the weight of the past, which can be characterised into three points; a state-controlled and state-administered economy, an archaic system of production and an ever worsening economic crisis [14].

The distribution sector used to make up about 7% of the workforce and did not even reach half the size of comparable sectors in the major market economy countries. Retail trade profit margins only represented a fifth to a quarter of those of developed countries. Distribution as a whole received only 3% of total investments, against 4 to 9% in Germany, the USA, France and the United Kingdom [15. P. 89]. These small detailed facts and figures only highlight the divide which existed between Western economies and that of the Soviet Union.

The rouble started to lose its value during the Gorbachev era. In 1988, it was worth 10 francs. In September of 1990, the franc caught up to it, and after the failed putsch of August 1991, it plummeted [16. P. 37]. In 1992, the price of consumer goods multiplied by 26 while the price of industrial products multiplied by 34 [17. P. 10]. Prices rose twice as fast as wages. According to statistics, one in three Russians had to survive with an income lower than the subsistence level [18]. It was said that the population's standard of living lowered by 66% in 1992.

As for savings, there was a disastrous collapse. In May 1993, savings only represented 5% of what they were in December 1991 [19. P. 38]. At the beginning of 1992, household money holdings increased by 24% while prices took off considerably between 400 and 600% [20. P. 18]. The winter of 1992—1993 was greatly marked by inflation. The country went from a monthly increase in prices by 10% in August 1992 to an average increase of 25% at the beginning of 1993 [21. P. 38].

At the same time, after decades of controlled economy and periods of shortages, a shift towards a new method of economic functioning and to opening the country to foreign importers drastically changed the consumer goods sector as well as consumer behaviour. Amongst the factors which contribute to the economic difficulties met by working age individuals and their families, many have to do with the labour market. Being in a difficult situation with low real wages, several months of back pay and overdue paid holiday time, numerous people holding full-time jobs in the formal economy were forced to find other strategies in order to meet their needs and the needs of their families.

Under these conditions, workers hold several jobs at the same time, start going into business for themselves, take up employment in the informal sector of the economy and grow food products for their own personal consumption, for selling or for trading. Quite often, they combine many of these solutions. Victims of economic pressure and the drop in real income, individuals join the ranks of the unemployed or the non-working because they cannot find work or choose not to be employed in the formal sector. It is

during this period that direct selling undergoes sizeable growth because this distribution channel fits the needs of the market and allows for the creation of new jobs. 70% of Russians have been approached by an independent distributor and more than a quarter of Russians claim to purchase products regularly through this distribution system [22].

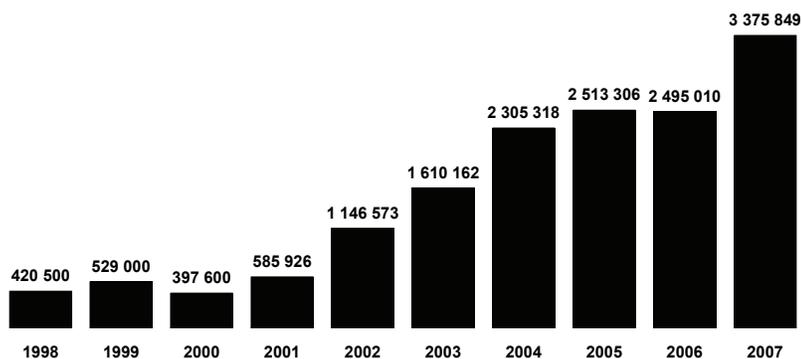
**3. Rapid expansion of direct selling during the crisis — employment development but a fragile financial situation.** It is certainly true that, historically, the positive approach of commercial activities in Russia has worked in favour of promoting a good image of direct selling in the country; 68% of Russians hold a positive view of direct selling and upwards of 78% hold a similar view of independent distributors [22].

In Russia, the advantages of direct selling are essentially that prices are low and attractive and time normally spent shopping is saved. Moreover, direct selling offers Russians the advantage of receiving detailed and reliable product information. In fact, keeping with time limits and places of delivery is an asset cited in more than 14% of cases [22].

August 17, 1998 will remain quite a turbulent day in Russia's recent history. The Russian crash brushed aside a part of the certainty that endured since the end of the USSR in 1991. Paradoxically, in this difficult context, direct selling allowed for the creation of 108 500 additional jobs in 1999, that is to say 25,8% more compared to 1998 [22]. In fact, this distribution system became a source of supply for products and services as a direct result of the proximity between clients and distributors, the social interaction involved and the confidence clients can put in their sellers. In a time of great uncertainty and mistrust so much with supplies as with the quality of a product, direct selling provided a guarantee on account of relationships between seller and client that were built on trust.

The post-crisis economic recovery allowed for a new boost in the economy from which direct selling was able to benefit. As from 2007, direct selling has been picking up quickly with a rise in sales by more than 60%. In general, duty free sales carried out by all the various direct selling retailers went from \$189 million USD in 2000 to \$1268 billion USD in 2004. From 1999 to 2004, we noticed a job re-entry trend with strong growth taking root in 2002 (+90%) followed by a period of marking time in 2005 and 2006.

Russia also experienced a strong change with respect to the number of independent entrepreneurs. This number had increased by 8, going from 420 500 entrepreneurs in 1998 to 3 400 000 independent entrepreneurs in 2007 [23]. However, this rise was not entirely linear. Despite an increase after the crisis of 1998 (+25,8% in 1999—1998), we did not witness any growth and instead witnessed a low point in 2000 (a drop of 33% compared to 1990). We can consider this discrepancy to be due to the distribution system itself, which, as much as with increasing or declining in sales, always shows a discrepancy effect which can still pick up very quickly in the case of decline. The graph below allows us to visualise how more than 2 955 000 jobs were generated in independent entrepreneurship and how this is thanks to the distribution system of direct selling (graph 1).



**Graph 1.** Number of salespeople russian DSA and member companies

Source: Rapport annuel 2007 de la Fédération de vente directe en Russie (2007 Annual Report of the Russian Direct Selling Association), Moscow, 2007.

Today, 90% of independent distributors are women. Women constitute the most socially vulnerable group in economic activity. Tamara Shokareva, president of the Russian Direct Selling Association, confirms that women have a difficult time finding work after the age of 35 because they are no longer considered young professionals, and, with the market being so competitive, preference is given to young women without children. For this reason, they turn to lines of business such as direct selling which allow them to hang onto their independence and free time.

Direct selling also appears as a means of adapting to the young economy of the Russian market. With the economic and political changes in Russia, certain professions were no longer in as much demand as they were before, or they became very poorly paid. Here, we are referring to the public sector with professions such as engineers and teachers. This explains why in Russia the rate of highly qualified independent sellers is amongst the highest in the world.

In the new economic conditions, incomes were not raised even for qualified individuals and, as we mentioned earlier, they were forced to hold many jobs at the same time. In this respect, the figures speak for themselves. In 2002, 28% of Russians had only one source of income, 26% had two, 1,5% had three sources and 0,04% had four or more. 63% of these distributors are between the age of 31 and 55, but it is worth noting that 16% of the 25—30 age grouping have additional work alongside direct selling [22].

With a good understanding of the history, mentality and figures and details mentioned earlier, we will now look at the question of the impact of this distribution system, faced with the crisis which came back to Russia in 2008.

**4. Direct selling — generating jobs during the financial crisis of 2009.** In 2009, sales from Russian Direct Selling Association member companies increased by 4,2% (103,5 billion roubles). Sales figures from the most important segment, that of cosmetics, increased by 5,4%. The number of active distributors increased by 6,5% and numbered at 4,7 million people [24]. Association members are satisfied with the 2009 results because during the crisis period the number of distributors increased considerably.

This confirms that direct selling helped Russian citizens cope with the many lay-offs that were brought on by the crisis or provided them with extra income during this difficult period.

In 2009, the company Bashkirova and Partners carried out a study on what Russians thought of direct selling. The results show that the younger working population, being highly qualified and having rather highly-paid jobs, is quite aware of this channel of distribution. 95% of those polled between the age of 18 and 29 know direct selling very well, and 53% of them buy products from independent distributors. Positive feedback from those taking part in the opinion poll most often had to do with the fact that direct selling came with easy delivery, saved time and offered prices within everyone's reach. Negative points which were emphasized had to do with sellers' "insistence", the lack of warranty on goods and the waiting time associated with certain products [25].

In 2009, Russia placed 9<sup>th</sup> on the world market for direct selling with \$2,9 billion in sales. It was preceded by the following countries.

Table 2

**Direct Selling Sales Figures (in the billions/USD)**

|             |      |
|-------------|------|
| USA         | 29,6 |
| Japan       | 20,9 |
| Brazil      | 10,1 |
| Germany     | 8,6  |
| South Korea | 7    |
| Mexico      | 4,4  |
| Italy       | 3,4  |
| Russia      | 2,9  |

Source: [http://www.rdsa.ru/cgi-bin/main\\_katalog](http://www.rdsa.ru/cgi-bin/main_katalog), "Conférence Internationale entrepreneurs et consommateurs: intérêts communs", Moscow, October 23, 2009.

With regard to the number of distributors, the Russian market positions itself evenly amongst the leaders. This position shows the exponential potential of this market despite the crisis situation.

Table 3

**Number of Distributors (in the millions)**

|           |      |
|-----------|------|
| USA       | 15,1 |
| Indonesia | 5,8  |
| Thailand  | 5,4  |
| Russia    | 4,4  |

Source: [http://www.rdsa.ru/cgi-bin/main\\_katalog](http://www.rdsa.ru/cgi-bin/main_katalog), "Conférence Internationale entrepreneurs et consommateurs: intérêts communs", Moscow, October 23, 2009.

The detailed facts and figure of table 3 illustrate that direct selling is an effective distribution channel in Russia and allow us to draw the following conclusions.

**Conclusion.** This distribution system has played an important role in the growth of the country's economic activity and has notably developed in regions where the unemployment rate is quite high. It offers a real opportunity to engage in business ac-

tivities and also allows for people to generate their own employment or to keep a low level of work activity. In this way, people also have the opportunity to easily find a more traditional occupation. This fact alone will help facilitate recruiting in the area of direct selling. Companies offering consumable and renewable products should be the ones coming out on top. We can therefore anticipate seeing the generation of jobs in this sector in the next two years as well as a spurt in the sales in this distribution system from 2011 onward.

Beyond the economic approach, such as employment, logistics and the purchasing process, we must also ask ourselves the question regarding the legislative impact which could have an effect on this distribution system. Faced with this global crisis on an unprecedented scale, we may think that direct selling will call for a certain number of changes in regulations. However, in contributing to the state's increase in resources through deductions on sales and through VAT, this distribution system will contribute to regulating and amortising the immediate effects of this crisis and will help bring about a balanced development of the country's social situation in due time. Through what it has shown us in industry over the past dozen years, Russia can serve as an example for demonstrating the capacity direct selling has for becoming a sector for regulating unemployment and for generating value added. This distribution system has contributed to the development of a new model of capitalism. This new model is more social and based on human relations without hierarchical constraints, unlike the more traditional profit-based capitalist model.

Considering the level of education of its distributors and the rapid expansion of current companies in this sector, Russia must become a reference for Western Europe and promote greater exchange of our operation systems in order to find the necessary answers at this present period of economic dislocation.

## REFERENCES

- [1] URL: [http://www.rdsa.ru/cgi-bin/main\\_katalog](http://www.rdsa.ru/cgi-bin/main_katalog), "Conférence Internationale entrepreneurs et consommateurs: intérêts communs," Moscow, October 23, 2009.
- [2] *Ambler T.* Marketing and the bottom line. — Prentice Hall, 2006.
- [3] *Kotler P.* Marketing management. — Paris.: Pearson Education, 2004.
- [4] *Osenton T.* Customer share marketing. — Paris.: Pearson Education, 2001.
- [5] *Couderc J., Schweizer M.* La vente directe par réseau. — Paris.: APB, 2007.
- [6] *Auer J.-T.* Le secteur de la vente aux particuliers: 29 techniques pour conclure ses ventes. — Paris.: Editions d'Organisation, 2007.
- [7] *Carrozza A.* Réussir sa vente aux particuliers. — Paris: Lulu.com, 2007.
- [8] *Rousseau B.* Vendre et fidéliser: vente en entreprise et vente aux particuliers. — Paris: Insep Consulting, 2008.
- [9] *Basovskij L.* Marketing [Marketing]. — M.: ИИФРА М, 2001.
- [10] *Muhina M.* Mnogourovnevnyj setevoj marketing v Rossii [Marketing multi niveaux en Russie] // Marketing v Rossii i za rubejom. — 2006. — № 3.
- [11] *Popov E.* Teoriâ marketingovo issledovaniâ [Théorie de l'étude marketing]. — Ekaterinburg, 2005.
- [12] *Golubkov E.* Mnogourovnevnyj setevoj marketing [Marketing multi niveaux en Russie] // Marketing v Rossii i za rubejom. — 2006. — № 4.

- [13] *Dailey P.* Guide de la Vente Directe. — Lyon.: Edition l'Entreprise, 2005.
- [14] La Russie Centre Français du Commerce Extérieur. — Paris: Les éditions du CFCE, 1993.
- [15] L'Économie de L'URSS. Résumé et recommandations. — Paris: OCDE, 1991.
- [16] *Cabane C., Sidorova V., Tchistiakova.* La Russie aujourd'hui. — Paris: Editions Dalloz, 1996.
- [17] *Ekonomičeskie reformy v Rossii [Réformes économiques en Russie] // Vestnik statistiki.* — 1993. — N 3.
- [18] RFE/RL Daily Report. — 1993. — N 139, July 23.
- [19] Études économiques de L'OCDE. La fédération de Russie. — Paris: OCDE, 1995.
- [20] World Bank, Russian economic reform: Crossing the Threshold of Structural Change, Washington, The International Bank for Reconstruction and Development // The WORLD BANK, rapport annuel, 1992.
- [21] *Cabane C., Sidorova V., Tchistiakova.* La Russie aujourd'hui. — Paris: Editions Dalloz, 1996.
- [22] The Socio-economic study of the direct selling Industry in Russia, Gfk Rus, RPRG and analytic companies, 2003.
- [23] Rapport annuel 2007 de la Fédération de la vente directe en Russie, Moscow, 2007.
- [24] Rapport annuel 2009 de la Fédération de la vente directe en Russie, Moscow, 2009.
- [25] URL: [http://www.rdsa.ru/cgi-bin/main\\_katalog](http://www.rdsa.ru/cgi-bin/main_katalog), site de la fédération de la vente directe en Russie.

## **ПРЯМЫЕ ПРОДАЖИ: СИСТЕМА СБЫТА ТОВАРОВ И СОЗДАНИЯ РАБОЧИХ МЕСТ В РОССИИ**

**Н.В. Гильви-Суликашвили, Блок Жан-Марсель**

Лилльский Католический Университет  
60 bd. Vauban, Lille 59016 France

Целью нашего исследования является показать, что прямые продажи являются эффективной системой сбыта товаров. Эта система создает рабочие места и помогает подняться по социальной лестнице, принимая во внимание особенности русской экономики. Прямые продажи основаны на факторе человеческих взаимоотношений в отличие от классических систем сбыта, таких как широкий сбыт товаров, мелкие коммерческие структуры или же индустриальные предприятия. Система прямых продаж оказалась очень эффективной в России, она вносит вклад в создание новой модели социального капитализма, основанной на взаимоотношениях без иерархии в отличие от модели финансового капитализма, основанной на получении прибыли.

**Ключевые слова:** прямые продажи, сетевой маркетинг, создание рабочих мест в России.