

Appendix G

Direct Selling Ethics at the Top: An Industry Audit and Status Report, Lawrence B. Chonko et al., *The Journal of Personal Selling & Sales Management*, Spring 2002, at 87-95

Direct Selling Ethics at the Top: An Industry Audit and Status Report

Lawrence B. Chonko, Thomas R. Wotruba, and Terry W. Loe

Unethical conduct by salespeople contributes to loss to the bottom line directly through misuse of expense reports and indirectly through lost customers who are disenchanted with questionable business practices. Self-regulation by industry has become an important strategy in improving the ethical environment of the industry as well as to establish standards that meet or exceed existing statutory or regulatory requirements. Audits of industry regulatory programs provide a mechanism to uncover weaknesses, heighten awareness of the importance of ethics and allow for improvements to be made and risks reduced. This study audits the Direct Selling Industry's code of ethics as it complies with the Federal Sentencing Guidelines (FSG) and establishes a benchmark against which subsequent ethics research in the Direct Selling Industry can be compared.

A Jaguar convertible rental car; a \$2300 round of golf for four people; season baseball tickets for \$6000: These statistics regarding expense account abuses were reported in a recent *Sales and Marketing Management* survey (Strout 2001) along with estimates from the U.S. Department of Commerce of employee theft of \$60 billion annually from Corporate America. Sales managers and executives, in light of these findings, should have a high degree of concern about how the ethics of their sales people are affecting the company's bottom line as well as customer relationships. The ethics of the Direct Selling industry is a topic that is much discussed. Part of the reason for this is that Direct Selling, despite being the oldest method of commercial distribution, is still very misunderstood (Peterson and Wotruba 1996). Direct Selling is defined as "...face-to-face selling away from a fixed retail location" (Peterson and Wotruba 1996, p. 2).

Lawrence B. Chonko (Ph.D., University of Houston) is *Holloway Professor of Marketing*, Baylor University. Dr. Chonko is author or co-author of five books, *Direct Marketing*, *Direct Selling*, and *The Mature Consumer*, *Professional Selling*, *Managing Salespeople*, *Business, The Economy and World Affairs*, and *Ethics and Marketing Decision Making*. He has also served as editor of the *Journal of Personal Selling and Sales Management*. Author of over 150 papers, his articles have appeared in leading journals including *Journal of Marketing*, *Journal of Marketing Research*, *Journal of the Academy of Marketing Science*, and the *Academy of Management Journal*. Throughout his career, Prof. Chonko has served as a consultant to industrial products, consumer products, service, and non-profit organizations.

Thomas R. Wotruba (Ph.D., University of Wisconsin) is Emeritus Professor of Marketing, San Diego State University, where he taught for 38 years. He has authored or coauthored six textbooks and published more than 80 research monographs and professional journal articles. He is the former editor of the *Journal of Personal Selling & Sales Management* and served on the editorial boards of the *Journal of Marketing*, *Journal of the Academy of Marketing Science*, *Journal of Marketing Management*, *Journal of Business & Industrial Marketing*, and *Journal of Personal Selling & Sales Management*. He has been actively involved in direct selling research since 1985 and received the Circle of Honor award from the US Direct Selling Education Foundation in 2000. He has traveled internationally addressing conferences or meetings in Berlin, Budapest, London, Malta, Melbourne, Montreal, Prague, Sao Paulo, and Singapore, and taught for a semester in the MBA program for the Czechoslovak Management Center near Prague. (twotruba@mail.sdsu.edu).

Terry W. Loe (Ph.D., University of Memphis) is Assistant Professor of Marketing at Baylor University and Associate Director of the Baylor University Center for Professional Selling. His research interests include ethics in marketing, professionalism in sales and sales management. His research has appeared in the *Journal of Professional Selling and Sales Management*, *Journal of Business Ethics*, *Journal of Marketing Management*, *Journal of Marketing Education*, and the *Journal of Contemporary Business Issues*, as well as numerous national and international conference proceedings.

Often, Direct Selling is confused with Direct Marketing (Bauer and Miglantsch 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) and is often equated with the illegal activity known as pyramid schemes (Ella 1973; McLellan 1988; Barkacs 1997). Mary Kay Cosmetics and Avon are two examples of direct selling firms. Salespeople in direct selling organizations are considered independent contractors versus being employees of the company. Such independence might suggest that organizations would have less control or impact on the ethics of the sales force. Therefore, associational and organizational directives that have positive effects on the ethical environment of direct sellers could be seen as a greater accomplishment than in other organizations or industries with a more captivated sales force.

Most corporations in the United States have established ethics programs in compliance with the Federal Sentencing Guidelines for Organizations (Robertson and Fadil 1998). These guidelines require that organizations develop compliance programs to prevent, detect, and deter illegal and/or unethical conduct. Many trade and professional associations have been active in self-regulation (Milne 1997). The Direct Selling industry has been very active in self-regulation for over two decades through the development, implementation, and enforcement of codes of ethical behavior and the promotion of ethical behavior among industry representatives (Association Management 1989; Wotruba 1995; Loe and Chonko 1999). The Association undertook self-regulation initiatives because, as Hemphill (1992) observed, firms or industries self-regulate to establish standards that meet or exceed existing statutory or regulatory requirements. In the 1960s, Direct Selling was gaining in popularity, but, because legitimate Direct Sellers represented a relatively new business methodology, there existed a need to establish new ethical guidelines (e.g. the distinction between legitimate Direct Sellers and pyramids). As a result, the Direct Selling Association (DSA) developed standards of behavior to assist their member companies in complying with and exceeding regulatory and statutory requirements.

Skeptics view association codes of ethics as self-serving and inwardly focused (Tucker et al. 1999). Ethics audits have

Journal of Personal Selling & Sales Management,
Volume XXII, Number 2 (Spring 2002, Pages 87-95).

Table 1
The Federal Sentencing Guidelines, the DSA Code of Ethics and the Current Ethics Audit

| Federal Sentencing Guidelines Element | The DSA Code Provision |
|---|--|
| Develop a code of conduct that is capable of reducing misconduct | In existence since 1970; appears to be effective as evident in literature |
| High level personnel must be responsible for compliance program (e.g., a compliance officer) and support the program (e.g., top management) | The DSA Code has a provision for a compliance officer |
| Discretionary authority in the organization must not be given to persons with a propensity to engage in illegal conduct | The DSA code has served to have companies ejected from membership |
| Standards/procedures must be communicated to employees through training and other forms of communication | The DSA code is distributed to DSA members through a variety of media and programs |
| Organizations must take reasonable steps to achieve compliance with standards by monitoring internal auditing systems to detect misconduct | The DSA code specifies compliance procedures |
| Standards and punishment must be enforced consistently | The DSA code specifies remedies |
| A plan to review/modify the compliance program is needed to demonstrate continuous improvement | The DSA Code has a provision for amendment and has been amended numerous times |

been suggested as means by which to alleviate this concern. An annual audit of an organization's ethics has been asserted to be as important as an annual financial audit (Gray 1996).

This paper conducts an external examination, or audit, of the Direct Selling industry association code of ethics. Such an examination is consistent with Weaver's call (1993), who noted that ethics research should address the development of theoretical models reflective of the development of codes of ethics and examine the developmental character of code usage and code consequences which is sensitive to idiosyncrasies of specific organizational settings. The present study responds to this mandate and is conducted from the perspective of the Direct Selling industry's corporate officers and with reference to the Federal Sentencing Guidelines (FSG). This study addresses: 1) the degree to which the DSA code complies with Federal Sentencing Guidelines mandates concerning a code of ethics, 2) the degree to which top management has assumed responsibility for compliance (Federal Sentencing Guideline), and 3) corporate officers' perceptions of the DSA code as it pertains to Federal Sentencing Guidelines 3 through 7. The findings should provide a benchmark for subsequent ethics research in the Direct Selling industry.

Ethics Audits

Ethics audits are important to better defining the ethical environment of the organization and understanding areas in need of attention. One part of an ethics audit is a survey administered to key internal and external constituents that have a professional relationship with the organization (Allen 1995). However, such audits are only a beginning and are not without their difficulties. Schaeffer and Zaller (1999) observe that ethics training, legal inspections, codes of conduct and consistent reaction to ethics violations are prone to several shortcomings including the following:

- They are reactive, not proactive.
- They emphasize the short-term and the obvious.
- They lack in self-reflection, being descriptive or prescriptive.

- They focus on the individual decision maker as separate from the organization's core values as they are based on individual phenomena such as moral reasoning, personal values, decision styles or moral philosophies.

They call for an ethics audit, which "...must include the dimensions of the organization, the social system, and the milieu in which the organization operates" (p. 46). Harris (2000) observes that few associations have mechanisms in place that allow for audits. Even though this assertion has a consultant's perspective, Harris notes that "Upon completion, weaknesses, will be noted, staff will be reacquainted with the importance of procedures, improvements can be made, and risks can be reduced" (p. 102).

The approach used to conduct the Direct Selling Industry audit is generalizable to any sales organization (company or association) having a code of ethics. Since all sales organizations must comply with the broad mandate of the Federal Sentencing Guidelines (FSGs), the comparison of the DSA code provisions to the FSGs represents an early attempt at specifying a framework for study applicable to sales organizations.

The Federal Sentencing Guidelines (FSG)

The FSGs were developed in response to increasing incidents of white-collar crime and the determination that responsibility for such crimes lay with the organization (Paine 1994). Kaplan et al. (1993) and Ferrell et al. (1998) provide comprehensive overviews of the genesis of the guidelines. Simply stated, the FSGs require all organizations to develop a compliance program designed to prevent, detect and deter individuals from engaging in illegal and/or ethical misconduct.

The first audit step established that elements of the DSA code of ethics address each of the three components of a compliance program. The code has provisions for code enforcement and for specific industry related activities such as pyramid schemes. As noted earlier, the code has been revised recently. Finally, the DSA code of ethics was created because of ethics related developments in the industry.

According to the U. S. Sentencing Commission (1994), an effective compliance program consists of seven elements pre-

sented in Table 1. The next stage of the audit process required a comparison of DSA code provisions with specific elements of the FSGs. As shown in Table 1, the DSA code has provisions that fit all seven of the FSGs for compliance.

The Impact of Corporate or Industry Codes of Ethics

The first element in the FSGs is the development of a code of ethics. Clearly, the Direct Selling industry is in compliance here as the DSA has a written code of ethics. A body of evidence still exists that casts doubt that codes of ethics, by themselves, are effective (e.g., Ford et al. 1982; Chonko and Hunt 1985; Cleek and Leonard 1998). Murphy (1995) notes that a major criticism of codes is the lack of enforcement, the lack of a mechanism for dealing with violations.

Top Management's Role Regarding Ethics

The second element in the FSGs concerns the responsibilities of top management for a compliance program. Top management and other officers in organizations play a crucial role in developing standards for ethical conduct, hence the rationale of our survey of corporate officers. The cause of ethical failure in organizations is often rooted in culture, specifically the failure of leaders to promote ethical ideals (Brien 1998). The influence of other employees and especially top management is probably the greatest factor in setting the tone for the individuals' business ethics (Ferrell and Gresham 1985; Ferrell et al. 1989; Trevino and Youngblood 1990). Lower level managers and employees take their cues for appropriate behavior from the actions and rhetoric of superiors that will suggest the expectations that managers have for subordinates.

We have already observed (Table 1) that the provisions in the DSA code of ethics incorporate all seven elements of the FSGs in its code of ethics. To address the other six FSGs, we sought the opinions of officers of DSA member companies regarding the DSA code of ethics.

Methodology

Surveys were sent to the 1700 Direct Selling corporate officers from about 150 firms listed in the DSA publication, *An Insider's Guide to the DSA*. This publication is a directory of corporate officers from companies that are members of the DSA.

A stamped, pre-addressed envelope and a cover letter requesting participation accompanied the survey from the researchers. A second mailing occurred approximately seven working days after the first mailing. In addition to the cover letter from the researchers, a cover letter from the President of the DSA accompanied each survey. Also, the President of the Association alerted members to the survey in his monthly newsletter that arrived in offices approximately two weeks before the first survey mailing.

We received 286 useable responses (16.8 percent). Response rates to the Center for Business Ethics surveys (1992, 1986) were 24 percent and 28 percent, while the response rate to the Morf et al. (1999) survey was 32.6 percent. The lower response rate may be attributed to the six-page length of our survey. As well, multiple recipients in the firms were contacted. Non-response bias was examined using the procedures specified by Armstrong and Overton (1977). Demographic comparisons between first and second wave respondents yielded no significant differences. Top Executives

(CEO's/Presidents/VP's) made up 20 percent of the respondents. More than 60% of the respondents were over 40 years of age. The majority were college graduates (77.3%). Over 55% of respondents had been in direct selling for more than 11 years, and 57% had been with only one company.

Results

Results from the survey are presented in Tables 2 through 5. These tables relate to the following issues: opportunities for unethical behavior, ethics and behavior, standards of behavior, and ethics issues related to the FSGs.

Opportunities for Unethical Behavior

We asked Direct Selling executives to indicate their feelings about opportunities for unethical behavior. These findings are presented in Table 2 and summarized below:

- Executives feel that opportunities for unethical behavior in Direct Selling may have lessened.
- There is some feeling that opportunities for unethical behavior in Direct Selling are less frequent than in other industries, other types of selling and society as a whole.
- Fifty-five percent agree that DSA member executives in Direct Selling do face opportunities to engage in unethical behavior, but these are less than for most non-DSA member company executives.
- Forty-eight percent of executives do face opportunities for unethical behavior.

In view of the literature concerning top management actions and ethics, we sought to examine responses of two subgroups in our sample – Top executives and other corporate officers. One aspect of top management responsibilities is the ethical tone set by top management in organizations (Chonko and Hunt 1985). As shown in Table 2, CEOs/Presidents/VPs report similar feelings to other corporate officers (e.g., marketing directors, ethics officers, sales directors) concerning ethics opportunities. Only one significant difference in response occurred. Other corporate officers felt more strongly that executives in their companies have a number of opportunities to engage in unethical behavior than did their top management counterparts. These findings suggest a degree of success in the effectiveness of the DSA's efforts to reduce unethical behavior through self-regulation.

Ethics and Behavior

In this study, we employ the methodology used by Chonko and Hunt (1985) to ascertain how Direct Selling executives view unethical behavior in their companies and industry. These findings are reported in Table 3 and summarized below:

- Twenty-two percent agree that executives in the respondent's company sometimes behave unethically, but responses concerning the ethical behavior of non-DSA member companies were mixed with 43.9 percent of executives agreeing that executives in non member DSA companies engage in unethical behavior.
- Fourteen percent of executives agreed that executives in other DSA member companies sometimes engage in unethical behavior.

Table 2
Perceptions of Direct Selling Corporate Officers Regarding Opportunities for Unethical Behavior

| Opportunities for Unethical Behavior Issues | Mean ¹ | Std Dev | Pct Agree ² | Pct Agree ³ | Top ⁴ n=57 | Other ⁵ n=229 | Sig ⁶ p ≤ |
|---|-------------------|---------|------------------------|------------------------|-----------------------|--------------------------|----------------------|
| Opportunities for unethical behavior are becoming more frequent in direct selling | 3.85 | 1.55 | 5.8% | 36.5% | 3.91 | 4.21 | NS |
| Opportunities for unethical behavior are less frequent in direct selling than in business in general | 4.76 | 1.55 | 3.6% | 16.5% | 4.81 | 4.74 | NS |
| Opportunities for unethical behavior are less frequent in direct selling than in other types of selling | 4.91 | 1.43 | 13.3% | 55.0% | 5.05 | 4.87 | NS |
| Executives in the DIRECT SELLING INDUSTRY that are not members of the DSA have a number of opportunities to engage in unethical behaviors | 4.80 | 1.36 | 9.9% | 55.5% | 4.96 | 4.76 | NS |
| Executives in DSA member companies have a number of opportunities to engage in unethical behaviors | 4.30 | 1.57 | 5.1% | 48.7% | 4.57 | 4.23 | NS |
| Executives in my COMPANY have a number of opportunities to engage in unethical behaviors | 3.79 | 1.83 | 3.6% | 44.2% | 3.37 | 3.90 | .05 |
| Opportunities for unethical behavior are more frequent in direct selling than society in general | 3.38 | 1.57 | 1.1% | 25.3% | 4.36 | 4.69 | NS |

¹Mean score on a seven point scale in which 1=strongly disagree with the statement and 7=strongly agree with the statement

²Percent of respondents who strongly agree with the statement

³Percent of respondents who either strongly agree, agree, or slightly agree with the statement

⁴Respondents with titles of CEO, President or Vice President

⁵All other corporate officers

⁶Level of Significance resulting from t-tests between means of top managers and other managers

Table 3
Perceptions of Direct Selling Corporate Officers Regarding Ethics and Behavior

| Ethics and Behavior Issues | Mean ¹ | Std Dev | Pct Agree ² | Pct Agree ³ | Top ⁴ n = 57 | Other ⁵ n = 229 | Sig ⁶ p ≤ |
|---|-------------------|---------|------------------------|------------------------|-------------------------|----------------------------|----------------------|
| Executives in my COMPANY sometimes engage in behavior I consider unethical | 2.58 | 1.88 | 5.0% | 22.2% | 2.00 | 2.73 | .01 |
| Executives in direct selling companies that are not members of DSA rarely engage in behavior I consider unethical | 3.29 | 1.22 | 10.3% | 43.9% | 3.25 | 3.30 | NS |
| Executives in other DSA member companies sometimes engage in behavior I consider unethical | 3.42 | 1.33 | 1.9% | 14.1% | 3.09 | 3.51 | .05 |

¹Mean score on a seven point scale in which 1 = strongly disagree with the statement and 7 = strongly agree with the statement

²Percent of respondents who strongly agree with the statement

³Percent of respondents who either strongly agree, agree, or slightly agree with the statement

⁴Respondents with titles of CEO, President or Vice President

⁵All other corporate officers

⁶Level of Significance resulting from t-tests between means of top managers and other managers

Here, other corporate officers reported a higher incidence of unethical behavior than did CEOs/Presidents/VPs, both in their companies and among DSA member companies. However, in both cases their perceptions of the frequency of unethical behavior were not pervasive.

Ethical Standards

This study also sought to assess the standards exhibited by leaders in the Direct Selling industry. In Table 4, findings concerning ethical standards are presented. The following is a brief synopsis of the findings regarding industry and organizational ethics standards:

- Ninety-seven percent of executives report that peers in their own companies have high ethical standards and 83.1 percent have similar beliefs concerning their own sales forces.
- Sixty-four percent of executives feel that their company standards are higher than those of the average DSA member company but they also feel that their company standards are similar to those of non-DSA member Direct Selling companies.
- Seventy-five percent of executives view DSA member companies as having high ethical standards.

Table 4
Perceptions of Direct Selling Corporate Officers Regarding Ethical Standards

| <i>Ethical Standards Issues</i> | <i>Mean¹</i> | <i>Std Dev</i> | <i>Pct Agree²</i> | <i>Pct Agree³</i> | <i>Top⁴ n=57</i> | <i>Other⁵ n=229</i> | <i>Sig⁶ p ≤</i> |
|---|-------------------------|----------------|------------------------------|------------------------------|-----------------------------|--------------------------------|----------------------------|
| The executives in my company have high ethical standards | 6.26 | 1.21 | 56.6% | 97.2% | 6.70 | 6.14 | .01 |
| The sales representatives in my company have high ethical standards | 5.53 | 1.21 | 16.2% | 83.1% | 5.81 | 5.45 | .05 |
| My company has higher ethical standards than other companies in the direct selling industry | 5.19 | 1.52 | 23.2% | 64.0% | 5.55 | 5.11 | .10 |
| Direct selling companies that are not DSA members have lower ethical standards | 4.27 | 1.48 | 7.0% | 38.1% | 4.57 | 4.20 | .10 |
| Generally, DSA member firms have high ethical standards | 5.16 | 1.23 | 9.8% | 74.9% | 5.26 | 5.13 | NS |
| Sales forces in DSA member companies have high ethical standards | 4.40 | 1.18 | 2.2% | 49.3% | 4.47 | 4.38 | NS |
| Compared to other industry associations, DSA members have higher ethical standards | 4.48 | 1.27 | 5.3% | 43.2% | 4.75 | 4.41 | .10 |

¹Mean score on a seven point scale in which 1 = *strongly disagree* with the statement and 7 = *strongly agree* with the statement

²Percent of respondents who strongly agree with the statement

³Percent of respondents who either strongly agree, agree, or slightly agree with the statement

⁴Respondents with titles of CEO, President or Vice President

⁵All other corporate officers

⁶Level of Significance resulting from t-tests between means of top managers and other managers

- Some executives express a degree of concern about the ethical standards of DSA member company sales forces.

Regarding standards, differences between CEOs/Presidents/VPs and other corporate officers occurred in five of the seven items (three of the items were significant at the .10 level). These items included ethics standards of executives, sales representatives, company vs. industry standards and standards of DSA member companies vs. non-member companies with CEOs/Presidents/VPs showing stronger agreement on each issue. These findings may suggest that higher-ranking members in the organization have a more idealistic view or feel a greater need to put a "good face" on the industry. This also suggests a need for further exploration of the differences in perceptions in higher-level officers and those lower in rank in the firm.

Federal Sentencing Guidelines Issues

In order to gain a better understanding of executives' broader viewpoints concerning the DSA code and its effectiveness, we also asked Direct Selling executives to comment on a number of general ethics-related issues as they relate to the FSGs. Their responses are presented in Table 5 and summarized below:

FSG 2. The second FSG concerns responsibility for a compliance program and support for that program. There is high awareness (87.6 percent are aware) of the identity of the individual responsible for code enforcement.

FSG 3. The third FSG concerns the avoidance of giving discretionary authority to those with a propensity to engage in illegal conduct. The examination of this issue is not directly amenable to survey research. In Table 5, six questions are presented as indicative of compliance with this guideline. Direct Selling corporate officers feel that there is a difference between ethics and the law, suggesting that ethics operates on a different (and presumably higher) plane and these officers are willing to take the high road. They also report that ethics considerations are important in marketing decisions and that there is a linkage between ethical behavior and profitability.

Finally, executives generally feel that ethical issues can be resolved and that what is ethical does not vary from one situation to the next. Interestingly, other corporate officers felt more strongly about the positive relationship between ethics and profits than did CEOs/Presidents/VPs. Both groups felt strongly that ethics are important in marketing decisions, but CEOs/Presidents/VPs felt a little more strongly about this issue.

FSG 4. This guideline concerns communication of the code of ethics. The following is a summary of the findings concerning communication of the DSA code of ethics.

- Ninety-six percent of Direct Selling executives from DSA member companies are aware of the intent of the DSA code of ethics.
- Most executives agree that the DSA code of ethics is widely publicized.
- Few executives agree that customers of Direct Selling companies are aware of the industry code of ethics.
- Eighty-six percent of DSA member company executives are very knowledgeable of the content of the DSA code of ethics.
- Ethics is perceived to be strongly promoted in individual DSA member companies, and there is some agreement that ethics is strongly promoted in the industry and that publicizing the DSA code of ethics helps companies in the marketplace; there is strong agreement that publicizing the DSA code of ethics helps the industry in the marketplace.
- Responses concerning the amount of ethics training provided for salespeople were mixed. There is agreement that adequate ethics training is provided for executives.
- Most executives (91.9 percent) agree that top management has effectively communicated that ethics violations will not be tolerated and that they know what is considered in appropriate behavior (91.4 percent) and that they are aware of the guidelines that guide behavior (86.9 percent).

Table 5
Perceptions of Direct Selling Corporate Officers Regarding Codes of Ethics

| Code of Ethics Issues | Mean ¹ | Std Dev | Pct Agree ² | Pct Agree ³ | Top ⁴ n=57 | Other ⁵ n=229 | Sig ⁶ p ≤ |
|--|-------------------|---------|------------------------|------------------------|--------------------------|-----------------------------|-------------------------|
| <i>Element 1 Code of Conduct</i> | | | | | | | |
| My company has policies with regard to ethical behavior | 6.22 | 1.30 | 53.9% | 91.9% | 6.27 | 6.20 | NS |
| <i>Element 2 of the FSG: Code Enforcement</i> | | | | | | | |
| I know who is responsible for code enforcement in my company | 5.93 | 1.32 | 40.8% | 87.6% | 6.19 | 5.86 | .10 |
| <i>Element 3 of the FSG: Discretionary Authority</i> | | | | | | | |
| If it is legal it is okay to do it | 2.76 | 1.50 | 1.5% | 16.1% | 2.68 | 2.78 | NS |
| It is acceptable to push the law to its limits | 2.94 | 1.60 | 0.7% | 22.9% | 3.00 | 2.93 | NS |
| In my company there is a direct positive relationship between ethical practices and company profits | 4.83 | 1.70 | 16.8% | 59.3% | 4.49 | 4.92 | .10 |
| In my company, ethics are important in marketing decisions | 5.73 | 1.34 | 30.4% | 87.9% | 6.11 | 5.62 | .05 |
| Questions of what is ethical for everyone can never be resolved since what is moral or immoral is up to the individual | 2.47 | 1.40 | 0.8% | 6.5% | 2.51 | 2.47 | NS |
| What is ethical varies from one situation and society to another | 3.32 | 1.83 | 2.9% | 36.3% | 3.48 | 3.30 | NS |
| <i>Element 4 of the FSG: Communications</i> | | | | | | | |
| I consider myself knowledgeable of the content of the DSA code of ethics | 5.62 | 1.22 | 25.0% | 86.2% | 5.98 | 5.52 | .05 |
| Ethical conduct is strongly promoted in the direct selling industry | 5.11 | 1.50 | 15.3% | 73.1% | 5.11 | 5.09 | NS |
| Publicizing the DSA code of ethics helps the direct selling industry in the marketplace | 5.88 | 1.19 | 33.5% | 88.5% | 6.07 | 5.83 | NS |
| The DSA Code of Ethics has received widespread publicity in my company | 4.83 | 1.74 | 19.4% | 60.1% | 5.18 | 4.75 | .10 |
| Most of my company's customers are aware of the DSA code of ethics | 3.46 | 1.70 | 3.6% | 26.8% | 3.54 | 3.44 | NS |
| I am aware of the intent of the DSA's code of ethics | 6.29 | 0.75 | 42.7% | 96.4% | 6.49 | 6.24 | .05 |
| Ethical conduct is very strongly promoted in my company | 6.00 | 1.42 | 47.1% | 87.0% | 6.12 | 5.97 | NS |
| Publicizing the DSA code of ethics helps my company in the marketplace | 5.16 | 1.41 | 16.5% | 69.3% | 5.32 | 5.12 | NS |
| I am pleased with the amount of ethics training that our company provides for our salespeople | 4.32 | 1.62 | 8.0% | 47.1% | 4.39 | 4.30 | NS |
| I have been pleased with the amount of ethics training that my company has provided me | 4.74 | 1.47 | 12.8% | 54.9% | 4.93 | 4.69 | NS |
| Sales representatives in my company have found that the DSA code of ethics is very useful to them personally | 4.29 | 1.44 | 7.1% | 39.2% | 4.11 | 4.34 | NS |
| Top management in my company has let it be known in no uncertain terms that unethical behavior will not be tolerated | 5.91 | 1.41 | 42.9% | 86.1% | 6.30 | 5.75 | .05 |
| I know what is considered inappropriate behavior in my company | 6.13 | 1.24 | 43.7% | 91.4% | 6.54 | 5.97 | .01 |
| I am aware of informal or formal codes and guidelines that guide the actions of direct sellers | 5.79 | 1.31 | 31.8% | 86.9% | 5.72 | 5.83 | NS |
| <i>Element 5 of the FSG: Monitoring</i> | | | | | | | |
| In general, the ethical environment among DSA member companies is much better than it was ten years ago | 5.07 | 1.44 | 17.9% | 59.0% | 5.12 | 5.05 | NS |
| In general, the ethical environment in the direct selling industry is much better than it was ten years ago | 5.03 | 1.42 | 15.3% | 64.2% | 5.07 | 5.01 | NS |
| In my company, there is a difference between the "official" line and how things usually work | 2.91 | 1.62 | 2.2% | 22.2% | 2.21 | 3.09 | .01 |
| <i>Element 6 of the FSG: Punishment</i> | | | | | | | |
| Unethical conduct is strongly punished in the direct selling industry | 4.16 | 1.58 | 3.7% | 33.9% | 4.05 | 4.19 | NS |
| Unethical conduct is strongly punished in my company | 5.45 | 1.50 | 25.0% | 81.0% | 5.98 | 5.31 | .01 |

(continued)

Table 5 (continued)
Perceptions of Direct Selling Corporate Officers Regarding Codes of Ethics

| Code of Ethics Issues | Mean ¹ | Std Dev | Pct Agree ² | Pct Agree ³ | Top ⁴ n=57 | Other ⁵ n=229 | Sig ⁶ p ≤ |
|---|-------------------|---------|------------------------|------------------------|--------------------------|-----------------------------|-------------------------|
| <i>Element 7 of the FSG: Review/Modification</i> | | | | | | | |
| The DSA code of ethics should be expanded to address more ethical issues than it now covers | 4.14 | 1.35 | 4.0% | 34.4% | 4.23 | 4.11 | NS |
| My company strictly enforces a code of ethics | 5.79 | 1.35 | 34.7% | 85.7% | 6.12 | 5.67 | .05 |
| My company strictly enforces policies regarding ethical behavior | 5.62 | 1.34 | 26.9% | 91.8% | 6.03 | 5.47 | .01 |

¹Mean score on a seven point scale in which 1=strongly disagree with the statement and 7=strongly agree with the statement

²Percent of respondents who strongly agree with the statement

³Percent of respondents who either strongly agree, agree, or slightly agree with the statement

⁴Respondents with titles of CEO, President or Vice President

⁵All other corporate officers

⁶Level of Significance resulting from t-tests between means of top managers and other managers

CEOs/Presidents/VPs expressed slightly higher levels of awareness of the intent of the DSA code of ethics than did other corporate officers. Similarly, CEOs/Presidents/VPs reported wider company publicity of the DSA code of ethics than did other corporate officers, and reported being more aware of what behaviors are considered inappropriate. They also expressed stronger agreement with top management's stance on tolerance of unethical behavior than did their other corporate executive counterparts.

FSG 5. This guideline concerns the taking of reasonable steps to ensure compliance. First, the DSA code, as already noted, has provisions that correspond with all seven FSGs. In addition, in Table 5, Direct Selling corporate officers report that the ethical environment is improved over that which existed ten years ago, and they feel that there is little difference between the "official" line and what is actually done in their respective organizations. Both of these would suggest that Direct Selling companies have taken steps toward compliance. Interestingly, other corporate officers felt that there was more of a difference between the "official" line and how things really work than did top officers.

FSG 6. The sixth FSG concerns enforcement of the code of ethics. The following is a summary of the findings concerning enforcement of the DSA code of ethics.

- Eighty-one percent of executives report that unethical conduct is consistently punished in their individual companies, while only 33.9 percent of executives report that companies consistently punish unethical conduct in general within their industry.

CEOs/Presidents/VPs felt more strongly about enforcement than did the other corporate officers who participated in this study.

FSG 7. The seventh FSG addresses the monitoring of the code of ethics and, indeed, of the entire sales program. Partly this effort involves assessment of the effectiveness of codes of ethics. The following represents the feelings concerning the review and modification of the DSA code of ethics.

- Results are mixed concerning whether or not the code should be expanded to incorporate other ethics -related issues.
- Most executives (85.7 percent) feel that their companies enforce codes of ethics.
- Most executives (91.8 percent) feel that their companies enforce policies regarding ethical behavior.

In the latter two findings above, top CEOs/Presidents/VPs felt more strongly about enforcement issues than did their other corporate officer counterparts, although both groups were quite positive about enforcement.

Discussion

This study was initiated to report on industry executive reactions to an association code of ethics and to report on the frequency of ethical problems facing Direct Selling executives as well as their perceptions of ethics code issues as they relate to the FSGs. Ethics codes are developed as mechanisms to bring some uniformity to the ethical performance of employees (Gatewood and Carroll 1991). Ethics codes and their implementation and enforcement are also reflective of an organization's willingness to resist those factors that can undermine the ethical behavior in an organization.

One question this study addresses is the extensiveness of ethical problems in the Direct Selling industry. The findings indicate that Direct Selling executives perceive fewer opportunities to engage in unethical behavior in their firms than in their industry. They do, however, feel that there are opportunities for unethical behavior in Direct Selling. They also report less frequent participation in unethical behaviors in their companies than in the direct selling industry as a whole. These findings are consistent with those of Chonko and Hunt (1985) and also Weaver and Ferrell (1977), who reported that "respondents believe they make decisions in an organizational environment where peers and top management have lower ethical standards than their own" (p. 480). On the issue of standards, Direct Selling executives reported higher standards than salespeople and other companies in the industry. In short, respondents are saying that they are more ethical than others.

Another question addressed in this study concerned executives' perceptions of the DSA code of ethics as it relates to provisions in the FSGs. The effectiveness of codes in promoting ethical behavior has received much attention but findings are mixed (e.g., Chonko and Hunt 1985; Posner and Schmidt 1987). There is agreement that the employees must know codes before the codes can impact behavior (Maes et al. 1998). Respondents reported that they know who is responsible for code enforcement (FSG step 2) in their companies. CEOs, Presidents, and VPs reported a higher level of this knowledge than did other corporate officers. This familiarity is not surprising in that CEOs, Presidents, and VPs set the tone for the

ethical climate of the companies they represent and also designate who serves as ethics officer in their companies. Clearly, the DSA code of ethics fulfills the awareness criterion according to the results of the survey presented here. As shown in Table 5, there is a high level of code awareness among Direct Selling corporate officers. However, as also shown in Table 5, the DSA can improve in external communications of the code, as called for by Murphy (1995), as respondents feel that their customers are largely unaware of the DSA code of ethics. In general, respondents seemed to indicate that the DSA code of ethics has been promoted widely (though mainly in their own companies and the industry), a finding that is in accord with one of the mandates of the Federal Sentencing Guidelines. Regarding the Federal Sentencing Guideline concerning monitoring of the code, about one-third of respondents felt that expansion of the code was needed.

With reference to the FSGs on enforcement, respondents felt that unethical conduct is more likely to be punished in their companies than in the industry. To be effective, codes of ethics should emphasize daily routines and responsibilities (Ferrell et al. 1988).

Finally, DSA executives reported that the ethics environment in member companies and in the Direct Selling industry has improved. Some of this improvement likely has occurred as a result of the development and enforcement of the DSA code of ethics. Improvement is also likely to have occurred as a result of company efforts to foster ethical behavior. Finding that Direct Selling executives seem to recognize the distinction between legal and ethical decisions is encouraging. Virtues such as honesty, fairness and truthfulness are too abstract for specific codification. Such traits manifest themselves in outcomes like developing trust with sales representatives and customers, helping employees and sales representatives make improved ethics decisions and the creation of the belief that top management not only stands behind the law, but is willing to go further than the law requires to promote ethical business practice. This may be captured in executives' perceptions that there is little difference in the "official" line and how things really work, although CEOs/ Presidents/VPs felt more strongly about this than did other corporate officers. Interestingly, respondents also reported that ethical issues they hear about tend to be industry-wide rather than company based issues. It would seem that the DSA code would be invoked under such circumstances.

Implications

The results of this survey suggest a high degree of ethical consciousness among Direct Selling executives. This study also suggests that DSA executives are aware that ethical consciousness does not occur by happenstance. Chief executives and other corporate officers must promote ethics. Moreover, the promotion of the DSA code of ethics has been helpful in raising the ethical conscience of industry members according to Direct Selling officers.

Clearly, top managers in any sales organization must take the lead in promoting ethical consciousness. The actions of the CEO and other top managers send strong messages to all sales force members of the company concerning management's commitment to ethical behavior. When top management reprimands unethical behavior, the ethical problems perceived by marketing managers seem to be reduced (Chonko and Hunt 1985). This finding has been corroborated many times (e.g. Belizzi and Hite 1989; Vitell and Davis 1990a; Vitell and

Davis 1990b; Armstrong 1992; Belizzi 1995). More recently, McDonald (2000) has observed that commitment by senior management that ethics becomes a part of the strategic vision of a company is essential for the promotion of ethical behavior. In other words, the actions of top management are critical to the ethical tone in an organization.

Other corporate officers can serve as assistants in mobilizing the ethical consciousness of the firm. The results of the survey suggest that Direct Selling executives are more interested in doing things right than doing them expeditiously. Those with high ethical standards must oppose methods that might interfere with offering quality products or services or having a world-class sales force. In other words, these other corporate executives play a vital role in ethical consciousness when their instincts are brought to bear in decision-making. And, to the extent that these corporate executives are well respected, they bring an authority and a respect to the conversation that can serve as a symbol for high ethical consciousness for others in the sales organization. Thus, corporate executives can play a prominent role in supporting ethical standards of behavior.

In the ethics audit process, the views of managers at all levels are critical. In our current audit, we provide considerable evidence that top managers and other managers are in agreement on many ethics issues. However, we also provide evidence of diverging viewpoints, generally with top managers feeling more strongly positive about industry ethics than other managers. Such divergences lead to questions like, "Is top management optimally setting the ethical tone for the industry?" "Do other managers have insights not possessed by top managers?" "Do such divergences imply that other managers have questions about top management commitment?" Such questions may be evoked by the results of an ethics audit and should lead to further investigation concerning why such perceptual discrepancies exist.

It is critical that sales force managers have a means of voicing concerns about corporate conduct as specified by the FSGs. Such a mechanism must insure that no one suffers adverse consequences from reporting questionable practices. The existence of internal processes provides time for research into issues and the creation of remedies to prevent recurrence of questionable behaviors. Time is also afforded management to prepare a defense in the event that there were, indeed, no ethical violations.

Finally, the role of associations such as DSA can be influential in promoting ethics in the industry. Professional associations perform an educational role by disseminating knowledge and keeping members up-to-date on business developments. They also perform a social role, helping members maintain contacts with colleagues. And, as is the case with the DSA, they maintain professional standards through a variety of vehicles including membership qualifications, training, and implementation of a code of ethics.

References

- Allen, Michael B. (1995), "The Ethics Audit," *Nonprofit World*, 13, (November-December), 51-55.
- Armstrong, J. Scott and Terry S. Overton (1977), "Estimating Nonresponse Bias in Mail Surveys," *Journal of Marketing Research*, 14, (August), 396-402.
- Armstrong, Robert W. (1992), "An Empirical Investigation of International Marketing Ethics: Problems Encountered by Australian Firms," *Journal of Business Ethics*, 11, 161-171.

- Association Management* (1989), "A Business Code Worth Exporting," (May), 57-59.
- Barkacs, Craig B. (1997) "Multilevel Marketing and Antifraud Statutes: Legal Enterprises or Pyramid Schemes," *Journal of the Academy of Marketing Science*, (Spring), 176-177.
- Bauer, Connie L. and John Miglautsch (1992), "A Conceptual Definition of Direct Marketing," *Journal of Direct Marketing*, (Spring), 7-17.
- Belizzi, Joseph (1995), "Committing and Supervising Unethical Sales Force Behavior: The Effects of Victim Gender, Victim Status, and Sales Force Motivational Techniques," *Journal of Personal Selling and Sales Management*, 15, 1-15.
- _____ and Robert E. Hite (1989), "Supervising Unethical Sales Force Behavior," *Journal of Marketing*, 53, 36-47.
- Brien, Andrew (1998), "Professional Ethics and the Culture of Trust," *Journal of Business Ethics*, 17, (9), 391-409.
- Center for Business Ethics (1986), "Are Corporations Institutionalizing Ethics?" *Journal of Business Ethics*, 5, 85-91.
- _____ (1992) "Instilling Ethical Values in Large Corporations," *Journal of Business Ethics*, 11, 863-867.
- Chonko, Lawrence B. and Shelby D. Hunt (1985), "Ethics and Marketing Management: An Empirical Examination," *Journal of Business Research*, 13, 339-353.
- Claypool, G. A. (1990), "Reactions to Ethical Dilemmas: A Study Pertaining to Certified Public Accountants," *Journal of Business Ethics*, 9, 699-706.
- Cleek, Margaret Anne and Sherry Lynn Leonard (1998), "Can Corporate Codes of Ethics Influence Behavior?" *Journal of Business Ethics*, 17, (6), 619-630.
- Cufaude, Jeffrey B. (1998), "Put Your Association to the Ethics Test," *Association Management*, 50, (January), 109-112.
- Ella, Vincent G. (1973), "Multi-Level or Pyramid Selling Schemes: Fraud or Free Enterprise?" *South Dakota Law Review*, (Spring), 358-393.
- Ferrell, O. C. and Larry G. Gresham (1985), "A Contingency Framework for Understanding Ethical Decision Making in Marketing," *Journal of Marketing*, 49, (Summer), 87-96.
- _____, and John P. Fraedrich (1989), "A Synthesis of Ethical Decision Models for Marketing," *Journal of Macromarketing* (Fall), 55-64.
- _____, Debbie Thorne LeClair, and Linda Ferrell (1998), "The Federal Sentencing Guidelines for Organizations: A Framework for Ethical Compliance," *Journal of Business Ethics*, 17, 353-363.
- Ford, Richard, Bonnie Gray, and Robert Landrum (1982), "Do Organizational Codes of Conduct Really Affect Employees' Behavior?" *Management Review*, 53-54.
- Gatewood, R.D. and A.B. Carroll (1991), "Assessment of Ethical Performance of Organizational Members: A Conceptual Framework," *Academy of Management Review*, 6, 667-690.
- Gray, Sandra Trice (1996), "Audit Your Ethics," *Association Management*, 49, (September), 188.
- Harris, Robert C. (2000), "Consider an Association Audit," *Association Management*, 52, (August), 101-102.
- Hemphill, Thomas A. (1992), "Self-Regulating Industry Behavior: Antitrust Limitations and Trade Association Codes of Conduct," *Journal of Business Ethics*, 11, (December), 915-920.
- Kaplan, Jeffrey M., Linda S. Dakin, and Melinda R. Smolin (1993), "Living with the Organizational Sentencing Guidelines," *California Management Review*, (Fall), 136-146.
- Loe, Terry W. and Lawrence B. Chonko (1999), "A Framework for Developing and Analyzing International Codes of Ethics: The Caux Roundtable Principles for Business and the Case for the Direct Selling Industry," *Journal of Marketing Management*, (Fall), 21-38.
- McDonald, Gael (2000), "Business Ethics: Practical Proposals for Organizations," *Journal of Business Ethics*, 19, 143-158.
- McLellan, Jack (1988), "The Secrets of the Pyramid," *Director*, (September), 31-32.
- Maes, Jeanne D., Arthur Jeffrey, and Tommy V. Smith (1998), "The American Association of Advertising Agencies (4As) Standards of Practice: How Far Does this Professional Association's Code of Ethics' Influence Reach?" *Journal of Business Ethics*, 17, (11), 1155-1161.
- _____ and Maria-Eugenia Boza (1999), "Trust and Concern in Consumers' Perceptions of Marketing Information Management Practices," *Journal of Interactive Marketing*, 13, (1), 5-24.
- Morf, Duffy A., Michael G. Schumaker, and Scott J. Vitell (1999), "A Survey of Ethics Officers in Large Corporations," *Journal of Business Ethics*, 20, (3), 265-271.
- Murphy, Patrick E. (1995), "Corporate Ethics Statements: Current Status and Future Prospects," *Journal of Business Ethics*, 14, 727-740.
- Paine, L. (1994), "Managing for Organizational Integrity," *Harvard Business Review*, 72, (March-April), 106-117.
- Peterson, Robert A. and Thomas R. Wotruba (1996), "What Is Direct Selling?—Definition, Perspectives, and Research Agenda," *Journal of Personal Selling and Sales Management*, (Fall), 1-16.
- Posner, B.Z. and W. H. Schmidt (1987), "Ethics in American Companies: A Managerial Perspective," *Journal of Business Ethics*, 6, 383-391.
- Pride, William M. and O. C. Ferrell (2000), *Marketing: Concepts and Strategies*, New York: Houghton Mifflin Company.
- Raelin, Joseph A. (1987), "The Professional as the Executive's Ethical Aide-de-Camp," *Academy of Management Executive*, 1, (3), 171-182.
- Robertson, Chris and Paul A. Fadil (1998), "Developing Corporate Codes of Ethics in Multinational Firms: Bhopal Revisited," *Journal of Managerial Issues*, 10, (Winter), 454-468.
- Strout, Erin (2001), "Are Your Salespeople Ripping You Off?" *Sales and Marketing Management*, February, 57-62.
- Sher, Byron D. (1969), "The Cooling-Off Period in Door-to-Door Sales," *UCLA Law Review*, 15, (July), 717-786.
- Trevino, Linda K. and S.A. Youngblood (1990), "Bad Apples in Bad Barrels: A Causal Analysis of Ethical Decision-Making Behavior," *Journal of Applied Psychology*, 75, (4), 378-385.
- Tucker, Lewis R., Vlasios Stathakopoulos, and Charles H. Patti (1999), "A Multidimensional Assessment of Professional Codes: The Professional Business Association Perspective," *Journal of Business Ethics*, 19, (3), 287-300.
- U. S. Sentencing Commission (1994), *An Overview of the Federal Sentencing Guidelines*, Washington, DC: Office of Publishing and Public Affairs.
- Vitell, Scott J. and Donald L. Davis (1990a), "The Relationship Between Ethics and Job Satisfaction: An Empirical Investigation," *Journal of Business Ethics*, 9, 489-494.
- _____ and Donald L. Davis (1990b), "Ethical Beliefs of MIS Professionals: The Frequency and Opportunity for Unethical Behavior," *Journal of Business Ethics*, 9, 63-70.
- Weaver, Gary R. (1993), "Corporate Codes of Ethics: Purpose, Process, and Content Issues," *Business and Society*, 32, (Spring), 44-58.
- Weaver, K.M. and O.C. Ferrell (1977), "The Impact of Corporate Policy in Reported Ethical Beliefs and Behavior of Marketing Practitioners," *AMA Proceedings*, 477-481.
- Wotruba, Thomas R. (1995), "Moral Suasion: Development of the U. S. DSA Industry Code of Ethics," Washington, D C: Direct Selling Education Foundation.

Appendix H

Potential Impacts of the FTC's Proposed Business Opportunity
Rule on the Direct Selling Industry, Nathan Associates, Inc.
(July 14, 2006)

Potential Impacts of the FTC's Proposed Business Opportunity Rule on the Direct Selling Industry



NATHAN
ASSOCIATES INC.
www.nathaninc.com

SUBMITTED TO
Direct Selling Association

SUBMITTED BY
Nathan Associates Inc.

July 14, 2006

INTRODUCTION

The Federal Trade Commission (FTC) proposed in April 2006 a new regulation called “The Business Opportunity Rule” with the goal of reducing fraudulent business opportunities. The proposed Rule would require a seller of a business opportunity to provide certain information to a prospective purchaser. Two of the several disclosures that a seller would be required to provide to a prospective purchaser are (1) a list of legal actions against the seller or its representatives involving fraud, misrepresentation and certain other illegal activities (the “legal disclosures requirement”) and (2) a list of purchasers of the business opportunity, including contact information, to serve as references (the “references requirement”). In addition, once these disclosures are provided by the seller, seven days must elapse before the prospective purchaser may make any payment or sign any contract to purchase the business opportunity (the “waiting period requirement”).

The direct selling industry and direct sellers would be regulated by the proposed Rule. Direct selling is a method of marketing and distributing products and services. Direct selling companies supply products and services for distribution to independent contractor direct sellers. In turn, direct sellers sell the products and services to retail customers through home parties and person-to-person sales methods. As independent contractors, direct sellers have the ability to control the amount of time they devote to their direct selling activities that is consistent with their other interests, such as spending time with their families.

As with any new law or regulation that changes the rules of commerce and the marketplace, the proposed Rule may have a substantial impact on the direct selling industry. To ascertain the potential impacts of the waiting period, references, and legal disclosures requirements on the direct selling industry, two surveys were conducted to measure how the level of interest of actual and potential direct sellers in the direct selling opportunity would change if the proposed requirements were in effect. The first survey was of U.S. adults and the second was of direct sellers. The remainder of this report describes these surveys and their findings.

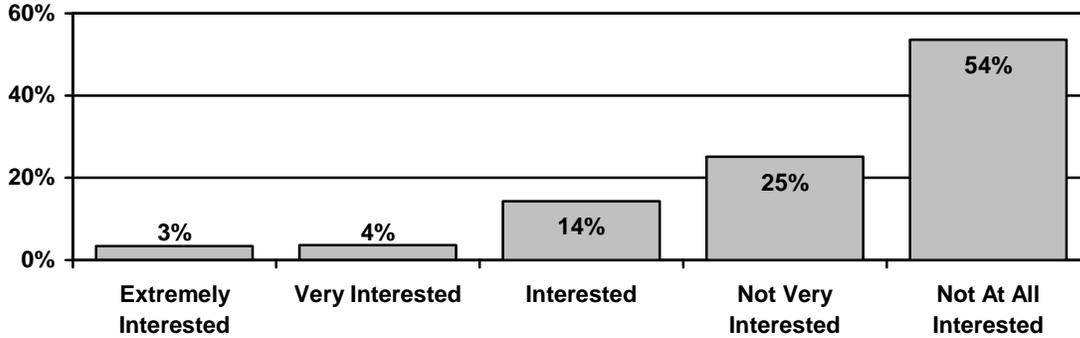
SURVEY OF U.S. ADULTS

Over two thousand (2,056) U.S. adults were surveyed online by Harris Interactive to measure their level of interest in the direct selling opportunity with and without the waiting period, references, and legal disclosure requirements in the FTC’s proposed Rule. The survey was fielded during July 5-7, 2006, and the results were weighted to represent the U.S. adult population.

Of the two questions that were asked in the survey, the first question measured the level of interest of U.S. adults in the direct selling opportunity without the proposed requirements. The question and a summary of respondent answers are presented below in Figure 1. Three percent reported they were extremely interest; 4%, very interested; and 14%, interested. Overall, 21% were extremely interested, very interested, or interested in the direct selling opportunity.

Figure 1

Question: *If you were presented with a compelling product or service and business opportunity, how interested would you be in becoming a part-time or full-time sales representative for a direct selling company such as Mary Kay, Arbonne, The Pampered Chef or Cutco, where you could work from home and earn money on the sales of products and services made by you and/or those you recruit as sales representatives?*



The second question in the survey measured what the level of interest of U.S. adults in the direct selling opportunity would be with the three proposed requirements, separately and combined. The question and a summary of respondent answers are presented below in Table 1.

Table 1.

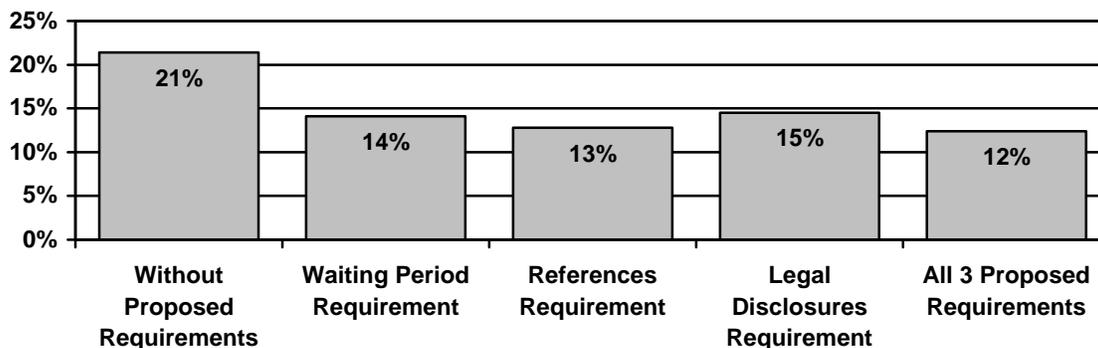
Question: *How interested would you be in becoming a sales representative if you were told the following, or you were required to tell your potential recruits the following?*

| | Extremely Interested | Very Interested | Interested | Not Very Interested | Not At All Interested | Total |
|--|----------------------|-----------------|------------|---------------------|-----------------------|-------|
| “Now that I have explained the business opportunity to you, you must wait 7 days before you can sign up.” | 1% | 2% | 11% | 18% | 68% | 100% |
| “As a representative, your personal contact information (name, address, phone number) might be given to potential recruits as a reference.” | 1% | 1% | 11% | 17% | 70% | 100% |
| “As a representative, you will be required to provide potential recruits with a list of any legal actions against yourself or others in your group or sales organization, or against the company you represent, involving misrepresentation or fraud.” | 2% | 2% | 11% | 16% | 69% | 100% |
| If you were told or were required to tell your potential recruits each of these statements. | 1% | 1% | 10% | 17% | 71% | 100% |

Based on the data in Figure 1 and Table 1, Figure 2 compares the percentages of U.S. adults extremely interested, very interested, or interested in the direct selling opportunity with and without the proposed requirements. The level of interest in the direct selling opportunity decreases with each requirement, falling from 21% without the requirements to 14% with the waiting period requirement, to 13% with the references requirement, and to 15% with the legal disclosures requirement. Moreover, the percentage of U.S. adults extremely interested, very

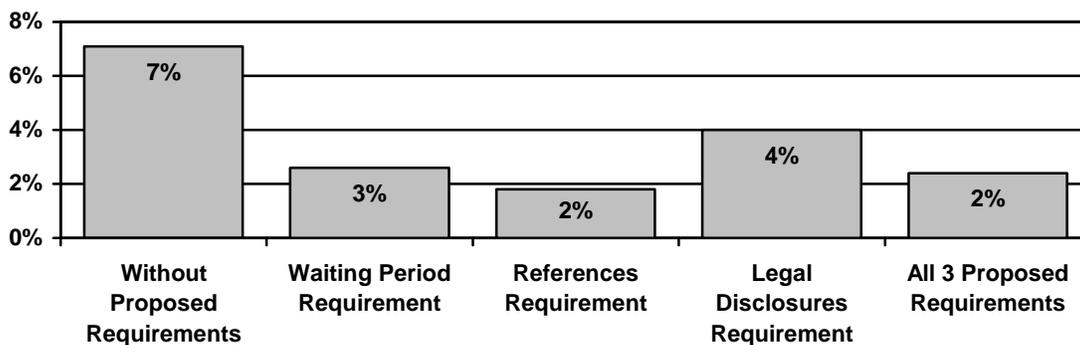
interested, or interested in the direct selling opportunity decreases from 21% without the requirements to 12% with all three requirements, a decrease of over 40%.

Figure 2.
Percentages of U.S. Adults Extremely Interested, Very Interested, or Interested in the Direct Selling Opportunity with and without the Proposed Requirements



When the analysis is narrowed to U.S. adults who are extremely interested or very interested in the direct selling opportunity, the adults most likely to become direct sellers, the decline in interest with the three requirements is even more pronounced (Figure 3). The percentage of U.S. adults extremely interested or very interested in the direct selling opportunity declines from 7% without the requirements to 2% with the three requirements, a decline of about two-thirds.

Figure 3.
Percentage of U.S. Adults Extremely Interested or Very Interested in the Direct Selling Opportunity with and without the Proposed Requirements



SURVEY OF DIRECT SELLERS

In addition to the survey of U.S. adults, a survey was conducted of U.S. direct sellers about the three requirements in the FTC’s proposed Rule. The survey was conducted online, and direct selling companies were invited at the end of June 2006 to distribute to their direct sellers a link to the Web page with the survey. By July 10, 2006, just under seven thousand (6,951) direct sellers had submitted complete surveys.

As background information, direct sellers completing the survey were asked to identify the primary direct selling company they represented, how long they had represented that direct selling company, and how many direct sellers they had personally recruited over the past year. Table 2 summarizes the sample of 6,951 respondents by these three characteristics.

Table 2
Summary of Respondents by Selected Characteristics

| Primary Company | % | Time with Primary Company | % | Number of Recruits in Past Year | % |
|--|------|---------------------------|------|---------------------------------|------|
| Firm 1 (large firm with person-to-person sales strategy) | 6% | Under 1 year | 24% | Two or less | 63% |
| Firm 2 (large firm with person-to-person sales strategy) | 23% | 1 to 5 years | 55% | 3 to 20 | 27% |
| Firm 3 (large party plan firm) | 47% | 6 to 10 years | 12% | Over 20 | 9% |
| Firm 4 (medium-sized party plan firm) | 12% | Over 10 years | 9% | Total | 100% |
| Other firms (over 100 firms) | 11% | Total | 100% | | |
| Total | 100% | | | | |

Note: Totals may not sum to 100% due to rounding.

The sample of 6,951 includes a variety of direct sellers, in terms of how long they have represented their primary direct selling company and the number of direct sellers they have personally recruited over the past year. While over 100 direct selling companies are represented in the sample, four firms account for most of the sample; two of the four are party plan companies and the other two use person-to-person sales methods, so the sample accounts for direct sellers using either sales strategy (i.e., party plan or person-to-person).

To measure the potential impact of the three proposed requirements, the survey asked if the direct seller would consider signing up with a direct selling company if the three requirements were in effect. The question and a summary of respondent answers are presented below in Table 3. Forty percent said they would consider signing up with the waiting period requirement; 24% with the references requirement, and 20% with the legal disclosures requirement. If all three requirements were in effect, only 15% would consider signing up.

Table 3

Question: If you were being approached today by a representative of a direct selling company for the first time ever, would you consider signing up for the business opportunity if the representative told you the following?

| | Yes | No | Total |
|--|-----|-----|-------|
| “Now that I have explained the business opportunity to you, you must wait 7 days before you can sign up.” | 40% | 60% | 100% |
| “As a representative, your personal contact information (name, address, phone number) might be given to potential recruits as a reference.” | 24% | 76% | 100% |
| “As a representative, you will be required to provide potential recruits with a list of any legal actions against yourself or others in your group or sales organization, or against the company you represent, involving misrepresentation or fraud.” | 20% | 80% | 100% |
| If the representative had told you all three of the statements above. | 15% | 85% | 100% |

Table 4 presents the percentages of direct sellers that would consider signing up with a direct selling company if all three proposed requirements were in effect, by primary company, length of time with primary company, and number of direct sellers recruited during the past year. For each

of the subgroups shown in Table 4, less than one-fourth of the direct sellers would consider signing up with a direct selling company if all three requirements were in effect.

Table 4
Percentages of Direct Sellers that Would Consider Signing Up with a Direct Selling Company If All Three Requirements Were in Effect

| Primary Company | % | Time with Primary Company | % | Number of Recruits in Past Year | % |
|--|-----|---------------------------|-----|---------------------------------|-----|
| Firm 1 (large firm with person-to-person sales strategy) | 5% | Under 1 year | 21% | Two or less | 17% |
| Firm 2 (large firm with person-to-person sales strategy) | 17% | 1 to 5 years | 15% | 3 to 20 | 13% |
| Firm 3 (large party plan firm) | 16% | 6 to 10 years | 10% | Over 20 | 7% |
| Firm 4 (medium-sized party plan firm) | 20% | Over 10 years | 5% | | |
| Other firms (over 100 firms) | 8% | | | | |

It is notable that two of the lowest percentages are reported by direct sellers who have represented their primary direct selling company for more than ten years (5%) and by direct sellers who personally recruited over 20 direct sellers over the past year (7%). Many of the direct sellers in these two subgroups of the sample are probably sales leaders for the direct selling companies that they represent. Sales leaders account for a substantial part of the sales volume and new recruits of direct selling companies, and provide the leadership and entrepreneurial spirit for building the networks of direct sellers that are necessary to successfully distribution the products and services of direct selling companies. These two low percentages suggest that people with the will and ability to become sales leaders would not sign up with direct selling companies if these three requirements were in effect.

CONCLUSION

The two surveys described in this report reveal that the level of interest of actual and potential direct sellers in the direct selling opportunity would decline substantially if the waiting period, references, and legal disclosures requirements in the FTC’s proposed Rule were to come into effect. More specifically, if all three requirements were in effect, the surveys found the following:

- The percentage of U.S. adults extremely interested, very interested, or interested in the direct selling opportunity would decrease from 21% to 12%, a decrease of over 40%.
- The percentage of U.S. adults extremely interested or very interested in the direct selling opportunity, the adults most likely to become direct sellers, would decline from 7% to 2%, a decline of two-thirds.
- If they were approached by a representative of a direct selling company for the first time ever, less than one-quarter of current direct sellers would have considered signing up for the direct selling opportunity.
- If they were approached by a representative of a direct selling company for the first time ever, less than one-tenth of current sales leaders of direct selling companies would have considered signing up for the direct selling opportunity.

Appendix I

Chart of State Business Opportunity Laws, Thresholds and Exclusions

State Business Opportunity Laws

| <u>State</u> | <u>Business Opportunity Threshold</u> | <u>Non-For-Profit Sales Kit Exclusion</u> | <u>Citation</u> |
|----------------|--|---|--|
| California | Blanket Exemption: \$500 or less; \$50,000 or more | | Cal. Civ. Code Section §1812.200 - §1812.221 |
| Connecticut | \$200 or less | \$500 or less | Conn. §36b-60 - §36b-80 |
| Florida | \$500 or less | \$500 or less | Fla. Stat. Ann. §559.80 - §559.815 |
| Georgia | Blanket Exemption: \$500 or less | | Ga. Code Ann. §10-1-410 - §10-1-417 |
| Illinois | \$500 or less | \$500 or less | 815 ILCS 602/5-1 et. seq. |
| Indiana | \$500 or less; \$50,000 or more | \$500 or less | Ind. Code Ann. §24-5-8-1 - §24-5-8-21 |
| Iowa | Blanket Exemption: \$500 or less | \$500 or less | Iowa Code Ann. §551A.1 - 551A.10 |
| Kentucky | Less than \$500 | \$500 or less | Ky. Rev. Stat. Ann. §367.801- §367.819, §367.990 |
| Louisiana | \$300 or less | \$500 or less | La Rev. Stat. Ann. §51:1821 - §51:1823 |
| Maine | \$250 or less | \$500 or less | Maine Rev. Stat. Ann. §32-69B(4691) - (4700-B) |
| Maryland | Less than \$300 | Less than \$500 | Md. Business Reg. §14-101 - §14-104 |
| Michigan | Blanket Exemption: Less than \$500 | | Mich. Comp. Laws Ann. §445.902- §445.904 |
| Missouri | \$500 or less | \$500 or less | Mo. Ann. Stat. §409.1000 - §409.1006 |
| Nebraska | \$500 or less | \$500 or less | Neb. Rev. Stat. §59-1718.01- §59-1722 |
| North Carolina | Less than \$200 | \$200 or less | N.C. Gen. Stat. §66-94 - §66-100 |
| Ohio | \$500 or less - \$50,000 or more | Less than \$500 | Ohio Rev. Code. Ann. §1334.01 - §1334.15 |
| Oklahoma | \$500 or less - \$25,000 or more* | \$750 or less | Okla. Stat. Ann. §71-802 - §71-829 |
| South Dakota | \$250 or less | No limit | S.C. Code Ann. §39-57-10 - §39-57-80 |

| | | | |
|--|-----------------------------------|---------------|--|
| South Dakota | \$250 or less - \$25,000 or more* | \$500 or less | S.D. Codified Laws Ann. §37-25A-1 - §37-25A-17 |
| Texas | \$500 or less | \$500 or less | Tex. Bus. & Com. Code Ann. §41.001- §41.303 |
| Utah | Less than \$300 | \$300 or less | Utah Code Ann. §13-15-1 - §13-15-7 |
| Virginia | \$500 or less | No limit | Va. Code Ann. §59.1-262 - §59.1-269 |
| Washington | \$300 or less | \$500 or less | Wash. Rev. Code Ann §19.110.010 -§19.110.930 |
| | | | |
| *If payment does not exceed 20% of purchaser's net worth | | | |

Appendix J

Selected Media Coverage of Direct Selling
from January 1, 2005 to July 9, 2006



DIRECT SELLING ASSOCIATION
1667 K Street, NW, Suite 1100, Washington, DC 20006-1660
202/452-8866 • Fax 202/452-9010
www.dsa.org

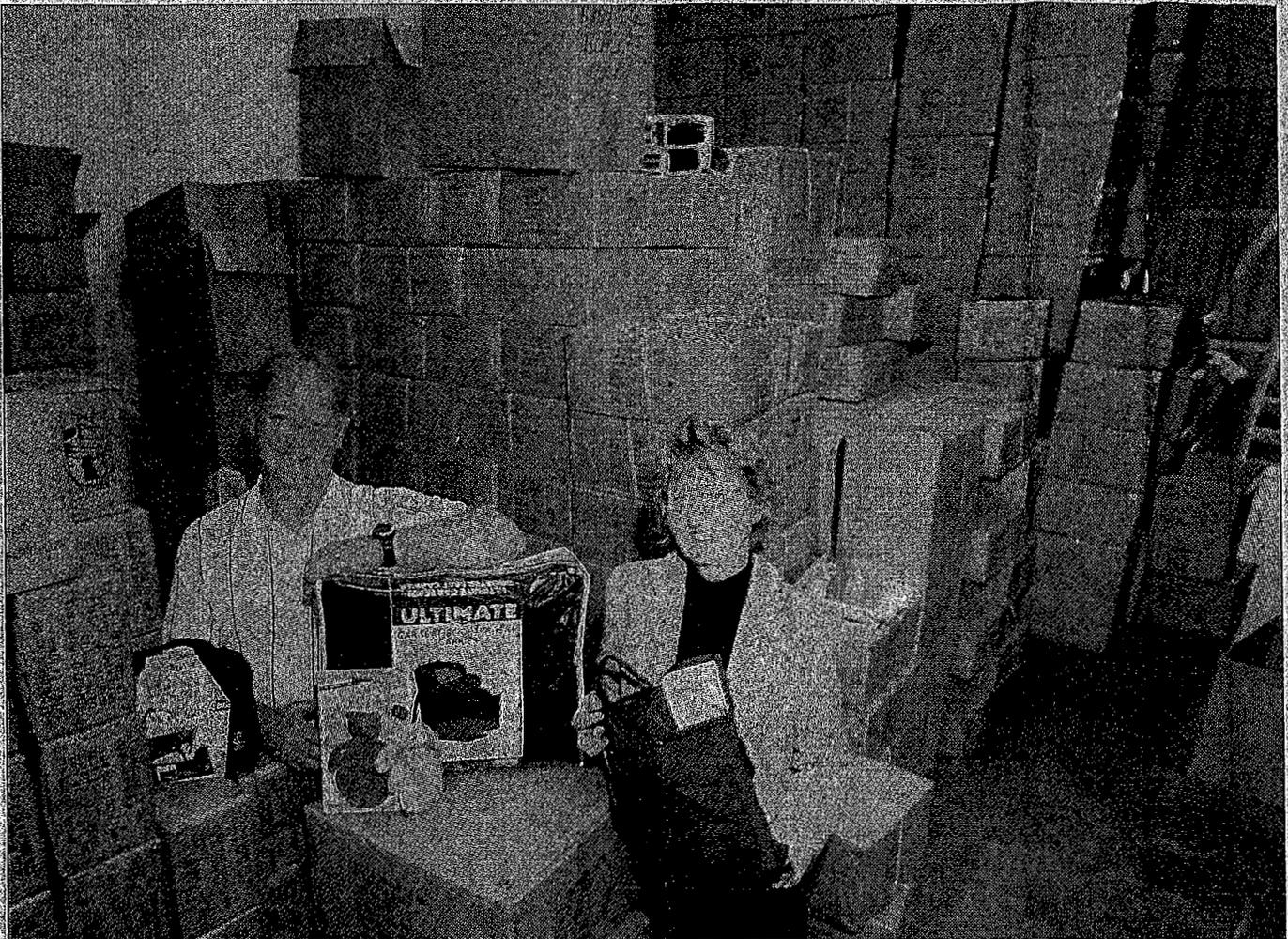
**Selected Media Coverage
of
Direct Selling**

| <u>Headline</u> | <u>Publication</u> | <u>Date</u> |
|--|----------------------------|--------------------|
| Mommypreneurs | Orange County Register | January 28, 2005 |
| Pocket change from Parties | The News & Observer | July 10, 2005 |
| Sales parties put the fun in functional | The Oregonian | July 28, 2005 |
| With direct sales, a hobby can be a job | The Seattle Times | October 2, 2005 |
| Close Up & Selling | Sacramento Bee | October 3, 2005 |
| Party time: Home events see sales | USA TODAY | October 5, 2005 |
| Women take control of careers | Galveston Crty. Daily News | October 16, 2005 |
| Brands expand beyond Web, stores to direct selling | Pittsburgh Post-Gazette | November 23, 2005 |
| Direct sales partners stay-at-home moms, corporations | Belleville News-Democrat | December 24, 2005 |
| Taking the Party Approach Far Beyond Tupperware | New York Times | December 24, 2005 |
| Will Big Yellow Box be full of profits? | Allentown Morning Call | January 22, 2006 |
| The Party Zone | Honolulu Star Bulletin | January 29, 2006 |
| Home Free | Flint Journal | March 22, 2006 |
| Feeling at home | Express-Times | March 31, 2006 |
| TupperWHERE; What's selling in Central Jersey? | Courier News | April 9, 2006 |
| The Home Is Their Store | The Washington Post | May 7, 2006 |
| Popular house parties mix buying and socializing | The Cleveland Plain Dealer | May 24, 2006 |
| Life after Ford | The Virginian-Pilot | July 9, 2006 |

BUSINESS

ORANGE COUNTY REGISTER

FRIDAY, JAN. 28, 2005



JEBB HARRIS, THE REGISTER

TAKING THE LEAP: Jan Childress of Anaheim Hills started her own baby products business 20 years ago so she could spend more time with her children. Her husband, Ron, also quit his job to help her run the business.

Mommypreneurs

A group founded by a work-at-home parent aims to help others start home-based businesses.

By NANCY LUNA

THE ORANGE COUNTY REGISTER

Moms Making Money

When: Feb. 5

Where: Marina Village Conference Center in San Diego

Program: focuses on providing mothers information and inspiration on starting careers at home

Time: 9 a.m. to 2 p.m.

Fee: \$50 (\$75 after Feb. 1)

Information:
www.momsmakingmoney.org or
(323) 733-3881

Jan Childress was pumping her breast milk in an office bathroom stall when she realized she'd had enough of the twice daily ritual.

Working as a graphic artist 20 years ago for Disneyland, the nursing mom from Orange hustled regularly to off-site meetings in Los Angeles and had trouble keeping her milk cool. So she designed a thermal bag for storing the milk and got it placed in a popular baby catalog.

Sales took off, and so did she.

Pregnant with her second child, she took the plunge many working mothers want to take but fear: She quit a steady job and started a home-based business so she could care for her children full time.

"Success is not only measured in monetary value, but it's also a measure of time," said Childress, whose daughters are now out of the house. "And the time spent with my children was priceless."

It's a story Childress, 53, will tell Feb. 5 at a San Diego conference held by Moms Making Money, a Los Angeles organization that provides moms information and inspiration to earn a guilt-free living by working from home.

"I love hearing the stories of women



COURTESY OF THE CHILDRRESS FAMILY

FAMILY: Childress said running her own business allowed her to take part in every aspect of her daughters' lives.

who have completely changed careers," said Vivian Juter Frankel, the organization's founder.

Frankel, a former Internet marketing consultant in Los Angeles, started Moms in 2002 when she tried to jump back in the work force after her son Kellen was born. "I had this delusion of having some time on my hands," she said, laughing.

But she was torn: She wanted to get back in "the game" and earn a living, but she also wanted to remain her son's primary caregiver. Few corporate jobs allowed her to do both.

She contemplated switching careers, and searched online for advice.

"The chat rooms are so impersonal," she said.



MORE ONLINE

These Web sites offer advice for moms who want to start home-based businesses:

www.webmomz.com,
www.momsmakingmoney.org,
www.mompreneursonline.com

SEE AT HOME • PAGE 4

AT HOME: Moms seek quality time

FROM PAGE 1

Frustrated by the lack of support groups for working moms, she decided to launch Moms Making Money. Through telecourses, newsletters and its Web site, the organization teaches moms how to make money from home by starting careers in various "home-friendly" fields such as direct sales or becoming a virtual assistant, an online version of a personal assistant.

After building a small clientele, Frankel held her first conference in June.

One of the attendees was Melanie Blakey, a 32-year-old mom from Burbank who gave up her "on-and-off" acting career so she could care for her newborn son, Sterling.

Still, Blakey wanted to earn some income but didn't know how to go about it.

"I needed something for me so I didn't feel out of touch with the world but still could stay at home with Sterling," she said.

At the conference, she hooked up with **The Body Shop**, which was recruiting for its new direct sales division.

She now sells the retailer's lotions and bath products at home parties, similar to the way Tupperware and Avon sell products. She makes a commission of roughly \$75 to \$150 a party, events held on weekends when her husband can watch her son.



INSPIRATION: Jan Childress designed these bags for keeping breast milk cool. The products took off, and Childress was able to start a new business.

JEBB HARRIS
THE REGISTER

The rest of the week is dedicated to her son.

"It's the right fit for me," she said.

While there's no data to show how many women

change careers or reduce work hours to care for children, some studies suggest it's happening often, Frankel said.

Nearly 46 percent of part-time working women say they've ratcheted back work hours so they can have "work

"Starting your own business is not for the faint of heart. Nobody is going to hand you work and a paycheck. You have to go out there and get it."

LORI SERRATO OLIN

life flexibility" to do things such as raise a child, according to the Employment Policy Foundation, a business research group in Washington, D.C.

Top 10 home-based businesses

1. Internet sales and marketing
2. Web and graphic design
3. Online research
4. Technical support
5. Virtual assistant
6. Business coach
7. Event planning
8. Developing children's products
9. Home services
10. Direct sales

Source: www.webmomz.com

Also, nearly 80 percent of the 133 million people in direct sales are married women, many of whom choose that path to earn income while raising children at home, said Amy Robinson, a spokeswoman for the Direct Sales Association.

"We have a lot of stay-at-home moms who are direct sellers," Robinson said.

At the Moms Making Money conference, women learn how to make the work-at-home leap by getting advice from mentors or life coaches who've done the same, Frankel said. Women are also taught how to write a business plan to ensure success.

That's exactly what Lori Serrato Olin, 27, did 13 months ago.

Just before Christmas 2003, and after buying a \$600,000 home, Olin quit her job as a public relations specialist for Fluor Corp. in Aliso Viejo so she could care for infant son, Clay.

"It was so scary to walk out of my office and not know where my next paycheck was coming from," said Olin, who decided to freelance from home.

But like other work-at-home moms, she was determined to make it work and hustled to find clients.

"Starting your own business is not for the faint of heart," she said. "Nobody is going to hand you work and a paycheck. You have to go out there and get it."

She did. Now she has steady work and does it on her own terms. She works before her 20-month-old son wakes up, while he naps and late at night, never missing a beat of his waking hours.

"It was the best thing I had ever done," she said. "Now, I'm making the same money, but I'm doing it in my pajamas."

Even dads are joining the pack. Christian Williams of Laguna Beach quit a career as a restaurant general manager last year after his third son was born.

An avid surfer, Williams started a surf camp in Laguna Beach, catering mostly to tourists at luxury south county hotels. With lessons occurring mostly during peak summer days, his new career allows him to hang out more with his sons, ages 1 to 10.

"It was scary to walk away from 15 plus years in the same field, but it pales in comparison to being able to spend so much more time with my family," said Williams, 34.

Childress' husband, Ron, also took the leap, quitting his job in 1992 as a service manager for Toyota to help her run the business. The two now pull in a six-figure salary selling baby accessories in stores across the country, including Burlington Coat Factory. But more importantly, Childress said, running her own business allowed her to take part in every aspect of her daughters' lives.

"I tell you I am so thankful I chose to be home with them," said Childress, who now lives in Anaheim Hills.

"Time flies so fast, and if I would have missed my time with them, that would have been so sad."

CONTACT THE WRITER:

(714) 796-6756 or
nluna@ocregister.com

THE NEWS & OBSERVER

Work & Money



Tanya Chaput, a salesperson for Tastefully Simple, talks to Carolyn Zummo as she takes orders at a party in North Raleigh.

STAFF PHOTOS BY ETHAN HYMAN

Pocket change from parties

BY SUE STOCK
STAFF WRITER

Standing in a North Raleigh kitchen on a warm night a few weeks ago, Tanya Chaput took aim and fired.

It wasn't a gun, but a well-designed, well-practiced, right-on-target pitch.

Addressing 16 women gathered in hostess Carye Krull's kitchen, Chaput enthusiastically asked, "Have any of you ever made bread at

home before? It's like taking care of a newborn."

Among the giggles and the chatter of the assembled group, Chaput continued talking.

"No, really. You have to give birth to it, and wrap it up in blanket and put it in a warm, dark, safe place for four hours. Then you bring it out and work with it again."

Though the volume level in the room might indicate that the women weren't listening, Chaput's spoken arrow hit its target dead on. By the end of the evening, the North Raleigh resident had taken 31 orders for Tastefully Simple's Bountiful Beer Bread Mix, at \$4.99 a pop.

If that \$4.99 price tag doesn't seem like much, multiply by 31 and that's more than \$150 just on bread. And the bread was just one of 30 items the women sampled that night.

Do some quick math and the conclusion is clear: Professional direct sellers such as Chaput can turn a bunch of little purchases into something pretty substantial, if they put in the time. The most

FEW TOP-TIER EARNERS

Yes, it's possible to make a six-figure salary working for a direct-selling company. But most direct sellers won't earn that much.

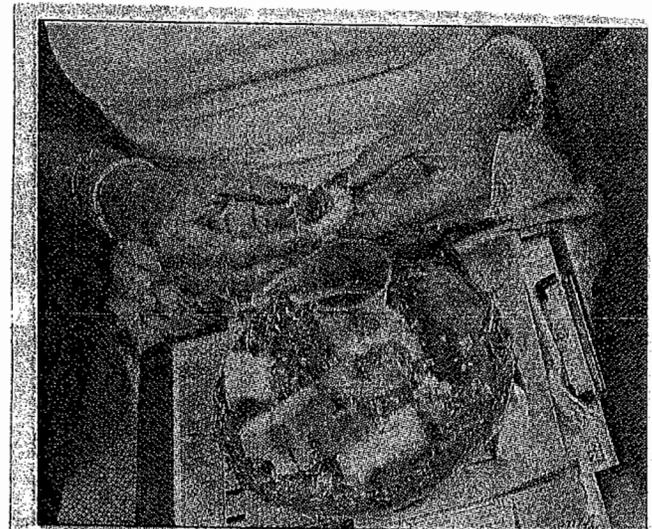
In fact, at least 90 percent of all participants are on the lowest rung of the direct-selling ladder. The median income for direct sellers is \$2,400 a year.

Those who do make a good living with these companies warn that you have to be willing to put in the time.

Most work at least 40 hours a week and oversee anywhere from a few hundred to more than 1,000 other consultants.

A lot of the companies have strict rules about how many people you have to recruit and sales levels that have to be achieved to maintain top-tier status.

Direct selling appeals to more people seeking extra income and flexible hours



Andrea Ritter samples Tastefully Simple's almond pound cake and rhubarb-strawberry fruit spread.

'Companies are always looking for new ways to reach new markets.'

AMY ROBINSON, DIRECT SELLING ASSOCIATION



Donna Murphy, left, Laurie Bass and Teresa Jester balance order forms on their laps as they sample food from Tastefully Simple during a party at Carye Krull's home in North Raleigh. Millions of people earn money hosting direct-selling parties.

STAFF PHOTO BY ETHAN HYMAN

DIRECT SELL

CONTINUED FROM PAGE 1E

successful even make a career out of it.

More people are doing so as direct selling expands and grows in popularity. Now 13.3 million people sell \$29.6 billion worth of food, kitchen products, golf clubs, beads and anything else you can think of each year.

How much can a person make?

The more successful direct sellers can easily make six figures, though Direct Selling Association spokeswoman Amy Robinson warns that the median is more like \$2,400 a year. "It's very true that you can make a full-time income with direct selling," she said. "But most people do it as a supplemental income source."

The way to better your profits: Sign up lots of people to sell more stuff. Here's how it works:

If you host a party where you demonstrate a product or guests can sample the products, you earn a percentage of the sales, typically in the neighborhood of 25 percent

But if you sign up other people who then host a party, you get a percentage of their sales, too. And better yet, if they sign someone up, you get a percentage of those sales as well. So if your team is big enough, you can make money off the sales of dozens of people.

"The potential for earnings is unlimited," said Chaput, who declined to say exactly how much she makes, but did say it's enough to send two of her three children to private school. "It's \$5,000 each," she said.

Being a top-level seller also has other perks. "I get a \$300 car allowance every month, and I've been to Puerto Rico for free and San Diego for free," Chaput said.

Such rewards for helping build the business are pretty common. But only a small percentage of people make it that far.

At Tastefully Simple, which sells food items such as the bread mix, dip mixes and spices, 91 percent of the 20,000 consultants are on the lowest level. The higher up the ladder you get, the more requirements you have to meet. For instance, at Chaput's team-leader level, she has

BEWARE OF PYRAMID SCHEMES

Like direct-selling groups, pyramid schemes also have tiered organizational plans. However, in the case of a pyramid scheme, the few people at the top get all the profits while the many on the bottom don't profit at all and often lose money.

Pyramid schemes are illegal but often masquerade as direct-selling companies. They often derive most of their income from startup fees paid by new recruits. Many legitimate direct-selling companies have a startup fee, but it's usually less than \$200.

The Direct Selling Association has developed these tips to help consumers avoid being scammed.

1. TAKE YOUR TIME. Don't let anyone rush you. A good opportunity to build a business in a multilevel structure will not disappear overnight. People who say "get in on the ground floor" are implying that people joining later will be left out in the cold.

2. ASK QUESTIONS about the company and its officers; about the products—their cost, fair-market value, source of supply, and potential market in your area; about the startup fee (including required purchases); about the company's guaranteed buy-back of required purchases; about the average earnings of active distributors.

3. GET WRITTEN COPIES of all available company literature.

4. CONSULT WITH OTHERS who have had experience with the company and its products. Check to see whether the products are actually being sold to consumers.

5. INVESTIGATE AND VERIFY ALL INFORMATION. Do not assume that official-looking documents are either accurate or complete.

WHO'S DIRECT SELLING?

■ 13.3 million people are direct selling in the United States.

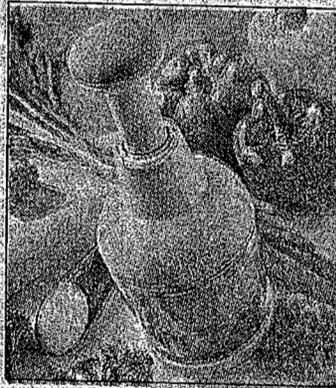
■ Southerners sell the most, accounting for 36 percent of all direct sales.

■ Nearly 80 percent of direct sellers are women.

■ More than half, 54 percent, are in the 35-to-54 age range, though sellers range from teenagers to seniors.

■ Three-quarters of direct sellers are married.

■ Direct sellers are educated, with 35 percent graduating from college, 8 percent having postgraduate degrees and 32 percent having some college, technical or trade-school experience.



A food chopper is among Pampered Chef's products.

HANDOUT PHOTO

SOURCE: DIRECT SELLING ASSOCIATION, 2003 DATA

to have a team meeting every three months, is responsible for team training and has to sign up a certain number of consultants.

"It's one of those things where we can't succeed going further up in the company if others are not succeeding along with us," she said.

Krull, who hosted that North Raleigh party, will get \$10 in free products for every \$100 of merchandise sold at her party. At last count, she was just shy of \$1,100, which means she'll get about \$110 in goods. "It's a bonus, really,"

she said. "I just like having a party and seeing my girlfriends. For me, it's the easiest party to host because I don't have to worry about what I'm serving."

New twist on old idea

Of course, direct selling isn't new. Tupperware parties and Mary Kay have been around for decades. The biggest change has been technology, said Debby Davis, one of about 250 executive directors for Tupperware who oversees

about 1,000 consultants in the eastern half of North Carolina.

"The whole Internet thing has opened a whole lot more opportunities for us," Davis said. "We can reach a tremendous number of people, but there's no more processing through human beings."

Perhaps because of the Internet boom, or the appeal of flexible hours and some supplemental pay, the number of direct-selling companies is growing, and established direct-selling companies are offering more products. Larger retailers such as Jockey, Lillian Vernon and the Body Shop also are using home shows and direct selling.

"Companies are always looking for new ways to reach new markets," Robinson said.

The growing popularity of direct selling is likely to cause some problems for companies in the future, said Julie Christopher, spokeswoman for Pampered Chef, which sells 260 products such as cooking equipment and utensils.

As direct-selling companies expand internationally, cultural differences create the need for specialized product development, Christopher said. "Like in Europe, the size of people's ovens is smaller, so they can't hold some of our larger stoneware pieces," she said.

Companies gaining larger footholds are fighting each other to draw customers to their parties.

"What you're doing, even if you're selling a completely different product, is you're competing for consumers' time," Christopher said. "No one will go to a party a night. We just try to introduce new products and keep it fresh."

Still, Robinson said, the nature of the system will continue to draw more people.

"Part of it has to do with the cost of bringing a product to a retail shelf," she said. "For a lot of companies, it's just not feasible. But they can afford to get their friend out there selling it, who gets two more friends to sell it. This world is certainly made up of entrepreneurs, and I don't think that's going to change."

Staff writer Sue Stock can be reached at 829-4649 or sstock@newsobserver.com.

The Oregonian

THURSDAY

July 28, 2005

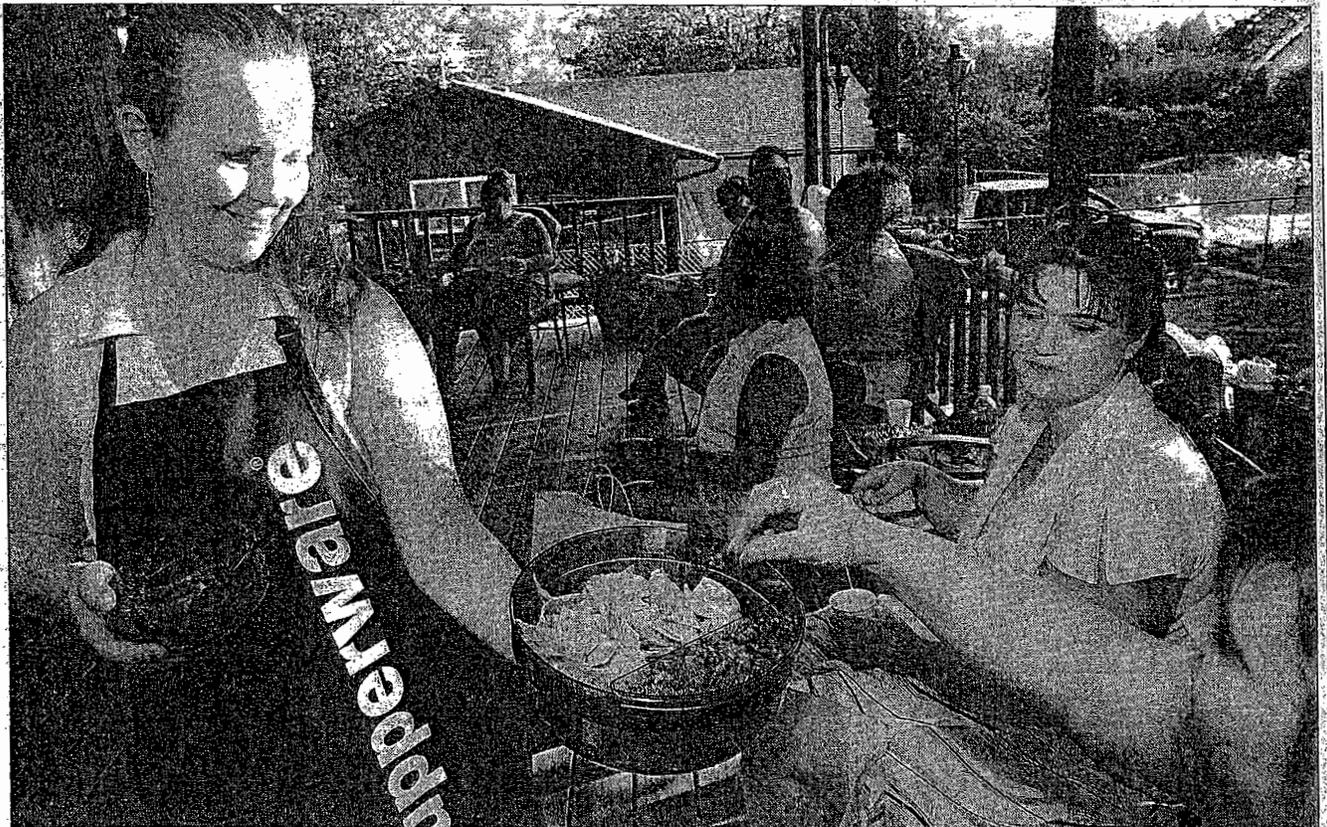
SUNRISE
EDITION

+c

BUSINESS

Kate Alexander offers a snack to Annemarie Cruikshank during a Tupperware party last week at the house of Deawn Seals (second from right).

Photos by
STEVEN NEHL
THE OREGONIAN



Sales parties put the fun in functional

Almost 60 years after the first Tupperware party, the in-home marketing gig is more popular than ever

By **JULIA O'MALLEY**
SPECIAL TO THE OREGONIAN

Gathered for a bridal shower on a balmy Oregon City evening, a dozen women sat in a semicircle of chairs on Deawn Seals' back deck. Before them, colorful plastic containers were stacked on a picnic table.

Kate Alexander thumped on a bowl filled with salsa. "You can even drop it after a few margaritas, and it won't break" she quipped, and the deck erupted in giggles.

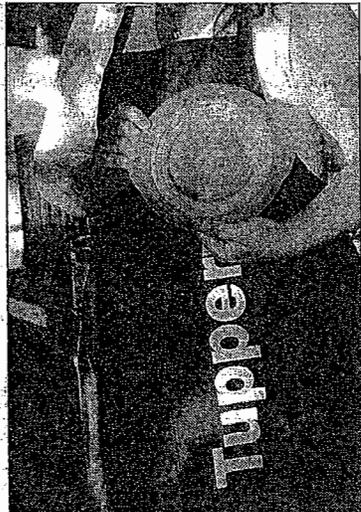
The classic Tupperware party has been replaying in backyards and living rooms since the 1950s.

Like a growing number of women, Alexander quit her job in 2001 to make Tupperware network marketing her primary vocation. These days, the Tigard mom says she brings in at least \$2,000 a month.

"At first I just bought the kit because I wanted the discount on Tupperware," said Alexander, 36. "But then I saw that I could be my own boss, and people are really interested in it. In three months, I was driving a new (company) car."

Tupperware, based in Florida, has more than 100,000 associates in the United States and close to 1 million worldwide, according to company figures. The first Tupperware party was in 1948.

Network marketing refers to a business with salespeople who work on their own schedule, either in a party or one on one. Alexander, who manages 36 independent consultants, makes 25 percent of her Tupperware sales, as well as a small percentage of the consultants' sales.



Tupperware sales associate Kate Alexander shows partygoers some of the company's new products.

She enjoys such incentives as trips, jewelry, bonuses and free products. "There are unlimited earning possibilities," she said. "I can go on vacation when I want, and if my kids are sick I don't have to call my boss."

Person-to-person in-home marketing has grown steadily in the United States since the mid-1980s, said Amy Robinson, a spokeswoman for the Direct Selling Association in Washington, D.C. In 2003, the last year for which figures are available, 13.3 million people were involved in direct marketing, bringing in close to \$30 billion. The industry grows about 7 percent each year, outpacing retail growth, which averages 5 percent annual growth.

Tupperware doesn't give out figures, but the company is growing with the popularity of network marketing nationally, said Karen Kearns, a company spokeswoman.

Women in their 30s and 40s make up the majority of party

hosts and participants, Robinson said. "For a lot of stay-at-home moms, these parties represent important social contact when they have been spending time with kids all day. Most people do it part time, to supplement a spouse's income."

Alexander chose Tupperware in part because the brand is well-recognized and has a good reputation. One drawback is that no matter how much she works, she gets no health insurance benefits from the company.

Buying private insurance was too costly, and a health savings plan Tupperware offered didn't meet her needs. She took a part-time job at Starbucks, which provides benefits.

The other big challenge of her job is that working for herself requires a lot of self-motivation. "There's days when you've called three people, and they've all said no to having a party after they told you they wanted to," she said. "It gets discouraging, but you just have to pick it up and keep going until you get a yes."

Party host Seals, 25, who was married last weekend, said she chose a Tupperware-themed bridal shower because she and her fiancé already lived together and didn't need other household items.

KATE ALEXANDER

What: Tupperware network marketing

Phone: 503-639-7242

Web site:
www.my.tupperware.com/katesroses

She likes network marketing parties because she can bring her kids, and she doesn't have to deal with the trouble of going to the mall.

"We just set up the kids in the room there, and they hang out and play Nintendo, and I don't have to find a baby sitter," she said.

Shower-goer Karen Johnson was particularly interested in the party for that reason. She spent the evening looking for products for her fudge business, Karen's Kandies in Oregon City.

"I usually like to buy things at the store, where I can see all the products and take them home right away," she said. "But with Tupperware, I know it's going to last forever."

Julia O'Malley
julia_o_malley@yahoo.com

With direct sales, a hobby can be a job



JUAN GARCIA / KRT

Barbara Gumpert with her West Highland terriers, Molly, left, and Abby, at their home in McKinney, Texas. Gumpert is a pet adviser for Petlane, a direct-marketing firm, because she enjoys animals.

INDUSTRY INCLUDING MORE PRODUCT LINES

Even established retailers are turning to trend

BY MARY JACOBS
The Dallas Morning News

DALLAS — Job hunters interested in direct sales need look no further than a hobby or favorite interest to find something to sell. Today, opportunities in direct selling have cropped up for a wide range of products and services.

"There are all kinds of products that are being marketed via direct sales," said Amy Robinson, spokesman for the Direct Selling Association in Washington. "That's one of the major trends in the business right now."

Once dominated by "lotions and potions" — cosmetics and nutrition products — the direct-sales business now includes product lines ranging from scrapbook supplies (Creative Memories), cooking products (Pampered Chef), in-home photo portraits (Cooksey Keepsakes) and even golf supplies.

Expanding the direct-sales spectrum, established businesses in other retail channels are adding product lines sold only through direct sales.

Southern Living magazine now of-

fers Southern Living at Home — home accessories sold through home parties. Binney & Smith, manufacturer of Crayola crayons, added its Big Yellow Box business, a direct-marketed line of activity kits for families.

Mail-order giant Lillian Vernon has a direct-selling arm, as does the Body Shop, a retailer of bath and body products.

"Direct sales represents about 1 percent of all sales in the U.S.," Robinson said. "That's a small percentage, but it's still a very large market, and many large companies want to tap into that."

All this means that prospective direct salespeople can find opportunities in almost any area of interest.

When a job hunter represents products for a hobby or area of interest, "that's an excellent scenario," Robinson said. "You'll know the product, and you'll know people who are interested in purchasing the product."

Regardless of the product line, any prospective sales representative should carefully research business opportunities. Promises of easy money are usually too good to be true.

Robinson advises job seekers to be wary of companies that require a large upfront investment.

"If you need to invest \$150, you should get something reasonable in return, whether it's samples, catalogs or training materials," she said.

"If you have to pay \$4,000 just for

the right to recruit other salespeople, that's a huge red flag."

Also, make sure there's an actual product that's being sold to the ultimate consumer of that product.

"You should be compensated primarily on what you sell or what your recruits sell," she said. If compensation is based only on how many people you bring into the business, that's another red flag.

Ask about the company's buy-back policy for unused merchandise. The association requires its members to repurchase at least 90 percent of unused inventory.

Finally, be realistic about the earning potential in direct sales — and the work required.

The median income in direct sales is about \$2,500 a year.

"Most people in direct sales only work a few hours a week, with a goal of making a couple of hundred dollars a month, so that's not surprising," Robinson said.

Those who work full time average about \$44,000 a year.

"Direct sales can be a great opportunity, but you need to do your homework and you need to trust your gut," she said.

Sacramento Bee

“A lot of companies find that direct sales are a vibrant way to sell. Unlike any other market, the (sales reps) know the products inside and out.”

Amy Robinson

spokeswoman for the Direct Selling Association



Sacramento Bee/Florence Low

Danielle Johnson, 5, center, checks out an array of arts and crafts items at a Crayola sale party in a Suisun City home. With Danielle are her mother, Deanna Johnson, left, and Jeanne Knippel. Below, Justin Garnick, 3, stretches a molding compound to form an animal.

CLOSE UP & SELLING

Crayola and others return to another era with house-party sales

By **Thuy-Doan Le**
BEE STAFF WRITER

With a cheery hello around the living room full of women, sales consultant Karen Green asked how many had ever heard of Crayola. Nearly all hands shot up.

Smiling, she passed out small opaque pouches of Crayola Model Magic, a modeling clay.

“Don’t open them yet,” she told the mostly adult audience. “OK, you now have two minutes to create an animal.”

The audience tore into their pouches and pulled out a soft, colorful, moldable compound.

“No snakes,” Green said. “They’re too easy.”

In the hands of would-be buyers, the shapeless putty quickly became unicorns, snails, turtles and chickens.



Direct: Sales numbers, work force

take big jump

"You see? Crafting isn't just for kids," she said, as she began plugging the Crayola line of arts and crafts kits to a room of potential buyers.

Crayola is one of the newest entrants in one of the oldest selling techniques around: direct sales.

This retro way of selling, best typified by Tupperware house parties in the 1950s and '60s, is being reinvigorated with a slew of mainstream companies embracing face-to-face sales through "product parties," said Amy Robinson, spokeswoman for the Washington, D.C.-based Direct Selling Association.

Among the traditional retail companies jumping into the house-party selling mode are The Body Shop, Jockey for Her and catalogue company Lillian Vernon.

"Well-established companies are looking into other methods of distributing their products," said Robinson. "A lot of companies find that direct sales are a vibrant way to sell. Unlike any other

► FROM PAGE D1

market, the (sales reps) know the products inside and out.

From the Pampered Chef's kitchen utensils to Mary Kay Inc.'s beauty products, the direct sales industry has grown steadily in the past five years. Retail sales through direct selling grew more than 20 percent to \$29.55 billion in 2003, from \$24.54 billion in 1999. The direct sales work force grew 29 percent to 13.3 million people in 2003, up from 10.3 million people in 1999.

A 102-year-old retailer, Crayola was looking for new ways to reach customers when it founded its Big Yellow Box division about a year ago, relying on teams of women to host in-home parties to groups of mostly women, such as the gathering that Green visited last week in Suisun City.

The sales technique allows Big Yellow Box consultants to "really dig in and demonstrate the products," said Stacy Gabrielle, spokeswoman for Binney & Smith, the parent company of

Best known for its little yellow box of crayons, Crayola's Big Yellow Box is a specialty line of larger, pricier craft projects that aren't carried in retail stores, such as a color-yourself piggy banks, a microwaveable flower press and jewelry making kits.

Crayola is art and creativity, said Green. "It marries beautifully with parties. It really had the makings of a brand to build a direct sales business."

Part of the appeal of in-home sales is the easygoing atmosphere, say those who sell and buy that route.

The Body Shop, which has more than 2,000 stores worldwide, began offering in-home sales in 2001 "to give our customers a chance to shop whenever,

wherever and however they want," said spokeswoman Sally Robb-Hames in San Francisco. "Some of our customers don't like going to malls or shopping online and prefer the personalized attention, customer service and fun at home among friends."

Amy Davenport, an east Sacramento resident and independent consultant for The Body Shop at Home, said the party format allows people to try the products in their own home. Among her customers, sampling the facials, foot rubs and make-up applications often leads to more purchasing than in-store browsing.

"The products sell themselves," she said.

So-called face-to-face selling allows companies to target their potential audience, said Susan

Solovic, chief executive officer of www.sbtv.com, an online television news and information network for small businesses.

"The enthusiasm of the group can get people excited and generate more sales," she said. "A lot of people tend to buy a little more than they would normally."

At the recent Big Yellow House party in Suisun City, Green's pitch generated more

than \$300 in sales among the dozen or so women in attendance. "At your house, you're more relaxed because in the store you can't touch anything," said Lizzy Starr, 14, whose mother was the host of the party.

"People like to shop with their friends. They like to be able to compare, look, feel and touch," Robinson said. "If the person's who selling to you knows the products, it's a much more per-

sonal experience."

Party sales also give companies an opportunity to generate word-of-mouth advertising and demonstrate new products.

About 80 percent of the sales representatives in the field are women, according to the Direct Selling Association.

"People still think of it as a very small business, like someone selling Avon products to make a few extra dollars. It can be that, or it can be a big business," said Solovic. "It's attractive to women because they can manage their own schedule when it's convenient for them and work out of their home. They don't need retail space and they don't have to carry a large inventory."

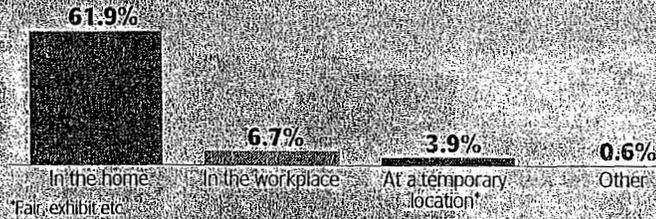
Typically, consultants purchase a startup kit of supplies and earn a percentage of their sales.

Laura Lafer, a North Highlands mother of two boys, said she signed up as a Big Yellow

Direct selling at a glance

Different from shopping in a store, direct sales are products sold directly to consumers at home parties, in the workplace or at other nonstore locations. In 2003, U.S. retail direct sales were \$29.55 billion, up more than 20 percent from 1999. At the same time, the number of individuals working in direct sales grew 29 percent to 13.3 million.

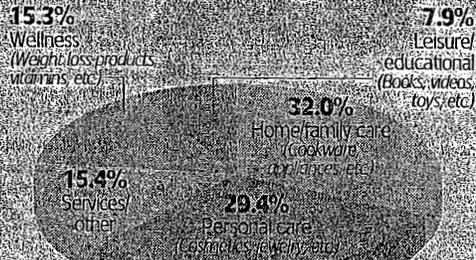
Direct sales in 2003



Sales force by gender



Sales by product group



Type of sales strategy



Source: Direct Selling Association

Sacramento Bee/Olivia Nguyen

Box consultant because she was looking for "something flexible and family-oriented. I'm a stay-at-home mom and this helps pay for the boys' activities," she said.

According to the DSA, the median earnings for part-time direct sales is \$2,400 a year. A small segment - about 10 percent of the direct sales work force - work full time, earning around \$50,000 to \$100,000 a year.

Green, whose grandmother sold Tupperware and whose mother still sells Avon products, said in-home sales are a way for women to "cut their teeth" and find out what it's like to run their own business. As someone who grew up immersed in "Tupperware bowls and lipstick samples," Green said, it's the ideal "back pocket" business.

The Bee's Thuy Doan Le can be reached at (916) 321-1040 or tdle@sacbee.com.

Party time: Home events see sales

Personal touch, service touted

By Lorrie Grant
USA TODAY

Home parties are swinging again with products as eclectic as home décor and as common as crayons.

Customers are flocking to those gatherings for the personal touch and service they afford.

Amy Robinson, spokeswoman for the Direct Selling Association (DSA), says 74% of consumers have purchased something via direct selling.

What's largely reinvigorating interest in direct selling is the breadth of products available, including those from scrapbooking company Creative Memories, underwear maker Jockey, cataloger Lillian Vernon and even shoemaker Aerosoles. That's a twist for the industry, which historically peddles functional products such as plastic storage containers and health and beauty items.

"If I bring it to you in your home, there's no real distraction, and I can get you to shop for an hour and a half. If you come in the store, I'm lucky to get you to shop for 15 minutes," says Marshal Cohen, chief industry analyst at marketing information company NPD Group.

Direct sellers see each party as a way of cementing loyalty to their brands.

"Today, we're more removed from people—we pay at the pump, go through express lines at fast-food restaurants and shop online, so what they value about direct selling is the one-to-one service in a party environment," says Jill Blashack, founder of home-taste-testing direct seller Tastefully Simple. "It's the relationship piece of this that makes the business grow."

Hottest direct sellers

Products include those sold by in-home demonstrations, parties and one-on-one selling.

Home, family care products (cleaning products, cookware, cutlery)

32.0%

Personal care products (cosmetics, jewelry, skin care)

29.4%

Services, other

15.4%

Wellness

15.3%

Leisure, educational

7.9%

Location breakdown

Northeast 16.1%

South 36.0%

Midwest 23.1%

West 24.8%



Source: Direct Selling Association

By Adrienne Lewis, USA TODAY

Industry sales, almost all accounted for by parties, were last pegged at nearly \$30 billion in 2003, vs. \$17 billion a decade ago, according to the DSA.

It's a business that's easy to start. No business plan, no test marketing, and in some cases, not even a budget is necessary. Because partygoers have to pay at the event, sellers aren't obligated to carry inventory. They can take orders and have the products shipped.

Among those rejuvenating direct selling:

► **AtHome America.** Founders and sisters Lisa Brandau and Becky Wright of All Things Home diversified their home décor business three years ago to move from country-style furnishings and accent pieces to a more eclectic mix, but that was just the beginning of the reinvention.



The Body Shop

GNO: The Body Shop At Home event is seen as a girls' night out.

They asked two patrons to host a party to show off the new additions. "We did more sales in a couple of hours than we did in an eight-hour day at the Country Peddler," a store they once owned. "It was a proverbial light bulb going off," Brandau says.

After a couple more home parties, they began recruiting patrons to become sales agents. Today, the HomeStyle Specialists, as the sales agents are called, number 7,000 nationwide.

► **The Body Shop At Home.** The division of the popular mall-based chain The Body Shop started in October 2001 with four people in three states. Now, thousands of consultants sell its body butters, bath accessories and fragrances in all 50 states.

"Many customers dislike going to malls or shopping online and prefer the personalized attention, customer service and fun-among-friends experience of a The Body Shop At Home event," spokeswoman Sally Robb Haims says. The party experience is called a GNO, which typically stands for girls' night out.

► **Tastefully Simple.** The busi-

ness founded by Blashack in 1995 has grown from seven sales consultants to 20,000 today.

"My fear in the beginning was, would women be too busy to come? Within the first two parties, I saw that that was not the case," she says, noting attendance of about 15 people per party.

► **Tealightful Treasures.** Smell is as helpful to sales as taste at these parties where a variety of loose tea is sold. The party setup includes scones and service on bone china. Founder and CEO Charlene Phillips blends teas and makes the scone mix, which can be purchased separately. "We focus on your sense of smell and the experience of the essential oils and aromas of the tea and how they affect your relaxation," Phillips says. The company has 25 sales agents and is due for national expansion this month.

There are others, such as underwear maker Jockey, which started Jockey Person to Person this year, as well as mainstays such as Tupperware and Avon, selling person-to-person primarily through parties.

Most sellers are women who have been recruited by other sales agents. They get into the business for many reasons, because they think highly of the products, or have a personal objective such as saving for a vacation or supplementing an income. For other women, the social aspect is the biggest draw.

For Phillips, the decision to let go of an insurance job that kept her in the office up to 12 hours a day was made easy after she became a mom. That was four years ago.

"There was no way to spend the time I wanted to with my children. So I started my own business of manufacturing scone mixes to sell wholesale to tea rooms and gift shops," she says. "The demographic was small and the social aspect was key for me. Home parties are fun."

Women take control of careers

By Kristen Bird
Correspondent

October 16, 2005

Parties, shows and classes are just a few of the terms independent sellers across the country use to describe the events in which they display products and attempt to make a sale. And there is one characteristic of the person who is most likely to be selling from cookware to gardening tools to Christmas decorations: She is a woman.

According to the Washington, D.C.-based Direct Selling Association, more than 13 million people were involved in direct selling in 2003, and almost 80 percent of these were women.

Direct selling is not a new concept, but surveys reveal the industry keeps growing at a constant pace as consumers seek to enhance their shopping experience with personal service. The national trade association reports that sales in the United States doubled in the last decade to nearly \$25 billion.

Olimpia Miranda moved from Panama to Texas City about 20 years ago with a degree in psychology, but on arriving, she found a hurdle that was difficult to overcome: the language barrier. Not wanting to give up, she found an alternative in direct selling.

Today, Miranda uses her Spanish language skills to her advantage as an independent senior sales director for Mary Kay, a cosmetic and skin care company.

"I have a degree in psychology, but (with) the English over here, I could not do my profession," she said. "With Mary Kay, you can do any language."

Miranda is a teacher of sorts, holding classes in Spanish for potential or current Mary Kay users about once a week and serving as coach to other Mary Kay consultants.

Her at-home business has allowed Miranda to stay home with her two children, and she still enjoys that flexibility. She's also happy with receiving 50 percent profit on everything she sells.

"When they were here, I was here too, and the younger one didn't have to go to day care because I was doing my schedule around him," Miranda said. "When I need to take off, I don't have to ask permission of anybody. I like the freedom."

Lynn Adami, a League City resident and group leader and consultant with candle company PartyLite, left her career as a registered nurse and began her at-home party-plan business for similar reasons.

"I was looking for a way to stay home to raise my kids and make some money where I had more control of my schedule," she said. "They've grown up with me being a candle lady. I know that they appreciate the fact that because of what I do, they've all gone to private school."

Adami began her business by asking people she knew to host shows and to invite people she didn't know. From there, she continued booking shows, extending her hostess list as time went by.

Every week, she holds two or three shows with eight to 10 people attending, works about two to three hours per weekday and holds a meeting once a month for other consultants in her geographic area.

During the last 15 years, Adami has noticed benefits and downfalls to essentially owning her own business.

"I'm not restricted by how many hours I put in, and a side benefit is a huge network of friends — that's been a fun aspect of it," she said. "The downside is no one telling you when you have to work, so you have to be self-disciplined to work from home. It can also be challenging to turn off work and have family time."

Teresa Vencil of League City is newer to direct sales, having only worked as an independent consultant for Baby Splendor, a baby products company, for about six weeks. She has a nursing background that complements her love for the baby products, which includes clothing, toys and room décor.

"To get into direct sales you need to find one product you feel passionate about, whether it's candles or decorating items or baby products," Vencil said. "That's going to be what people relate to you about."

Beside a passion for the product, Vencil explains the primary reason women may be so involved in direct selling is the one-on-one interaction.

"When you go to the big department stores, you don't get that personal touch," she said. "We like that personal attention."

All three of these independent consultants agreed that being a people person is an essential personality characteristic to having a direct selling business.

"You have to like people, because this is very much a one-on-one kind of thing," Adami said.

Amy Robinson, director of communications and media relations for the Direct Sellers Association, echoed that advice.

"For those people who are looking at it as an income opportunity, you should be willing to talk to people, be able to talk about the products and enjoy that kind of interaction," Robinson said.

She also offered tips for choosing a direct selling company to represent.

"First of all, carefully look at different companies — products, compensation plan, rules to become a seller. Talk to people involved in the business to get an across-the-board idea of what the product is about."

+++

Considering An Opportunity?

How To Identify Legitimate Direct Selling Opportunities:

- Startup costs should be minimal. The startup fees in direct selling companies are generally modest — usually the cost of a sales kit. Companies want to make it easy and inexpensive for you to start. High entry fees should be a warning sign.
- You should be able to return unsold inventory. Companies belonging to the Direct Selling Association “buy back” unsold marketable products purchased within the prior 12 months if you decide to quit the business for 90 percent of the price you paid for them. Beware of opportunities that encourage “front end loading,” or buying large inventories of unreturnable products to reach achievement levels or receive a “special” or larger “discounted” price.
- Is the money you’ll earn based on the sale of products or services? The answer should be “absolutely.” Beware of any business that claims you can get rich by solely using their products or by recruiting new people into the business. You should also believe in the products or services you’ll be selling. Ask yourself, “Would I buy this product if I weren’t in the sales organization?” If the answer to that is no, think twice about the opportunity.

How To Get Started:

- Identify a company and product that appeal to you.
- Take your time deciding.
- Ask questions about the company, its leadership, the products or services, startup fees, realistic costs of doing business, average earnings of distributors, return policies and anything else you’re concerned about.
- Get copies of all company literature. And read it!
- Consult with others who have had experiences with the company and its products. Check to see if the products or services are actually being sold to consumers.
- Investigate and verify all information. Do not assume that “official looking” documents are accurate or complete or even produced by the company.
- Check to see if the company in which you’re interested is a member of the Direct Selling Association. If it is, the company has pledged to abide by and uphold the association’s code of ethics. In addition, you might want to call your local Better Business Bureau, state attorney general or consumer protection office.

— Source: Direct Selling Association, www.dsa.org

SMALL BUSINESS

Brands expand beyond Web, stores to direct selling

By Anne D'Innocenzio
The Associated Press

NEW YORK — Julie Spreckels used to just shop catalogs and the mall. But lately, she's shopping in someone else's living room.

The Levittown, N.Y., resident, recently bought \$100 worth of Lillian Vernon products, such as holiday candy dishes, at a party thrown by a company consultant.

"I like going to stores, but this is definitely a nice alternative," said Ms. Spreckels, 33. "The service is not the same at a store. Here, there's a personal touch. And I am open to buying more

products." As a mother of two small children, it's a "pain" to go to the mall, she noted.

Lillian Vernon is among a growing number of companies that are embracing direct selling, targeting female shoppers — particularly time-starved young mothers such as Ms. Spreckels — who are growing dissatisfied with service at stores.

Items "come to life when a consultant romances the product samples they bring," said Kevin Green, marketing officer, Lillian Vernon, mover of monogrammed clothing and accessories.

The \$30 billion direct selling industry is trying to shake off its dowdy image while pitching itself as a viable way to make money. Even Tupperware Corp., which ushered in the advent of the home selling party in the 1950s, has scrapped boring storage bins for plastic wine glasses in rich jewel tones. The firm has thrown star-studded Tupperware parties, with such celebrities as rapper Ice-T.

"A lot of people are getting a much different look at direct selling, based on a variety of products being sold now — and the selling opportunities," said Amy Robinson, of Washington-based Direct Selling Association.

Companies also are looking at direct selling as a more profitable way to reach customers, said Marcela Speert, an industry consultant. Overhead and other fixed costs are lower because no stores are involved and consultants work on commission, she said.

The U.S. direct sales industry, which includes in-home and door-to-door selling, has nearly doubled from \$16.55 billion in sales in 1994 to \$29.55 billion in 2003, according to the Direct Selling Association. Figures were not available for 2004. Annual sales growth averaged 7.1 percent during the 10-year period, surpassing traditional retailers'

average of 5.4 percent. At-home selling accounts for 62 percent of the total direct sales market.

Consultants earn up to a 50 percent commission as well as commissions on sales from consultants they recruit. The party hosts, who are recruited by the consultants, earn free products or discounts on items.

Only 8 percent of consultants make more than \$50,000, says the Direct Selling Association, but consultants say the job offers decent income and flexibility.

The work is becoming more attractive for women, who make up 80 percent of the 13.3 million

direct selling work force, which has doubled since 1994.

Jen Rosengrant, 37, started selling for Crayola's Big Yellow Box direct selling division a year and a half ago and is now quitting her full-time job as a recruiter. Ms. Rosegrant, who lives in Richland, Lebanon County, Pa., is Crayola's top-selling consultant.

Staci Fabiani, 35, who is now Lillian Vernon's top seller, said she was making close to what she made as a teacher. But working only 20 hours a week, the job has allowed her more time with her three young children, she said.

Dec. 24, 2005

BUSINESS

Direct sales partners stay-at-home moms, corporations

Industry made \$29.55 billion last year

Associated Press

CHICAGO — Like thousands of other stay-at-home moms, Denise Kirk wanted to earn money to boost her family's income.

Kirk, who has a degree in health care management and was a full-time marketing consultant, found her niche with Alsip, Ill.-based AtHome America, a direct sales company that markets housewares and furniture.

"I love this company," Kirk said. "I love what it has done for my family."

The privately owned AtHome America, which had sales of \$50 million in 2004, is just one of a burgeoning number of direct sales companies, an industry that reported sales of \$29.55 billion last year.

Because of the industry's size and growth potential, companies that made their names selling through retail stores are entering the direct sales market. Underwear maker Jockey has its Jockey Person to Person toiletries retailer. The Body Shop now has The

Body Shop At Home, and even Southern Living magazine's has its Southern Living at Home.

"From a selling standpoint, it is an excellent way for retailers to raise the profile of their products," said Amy Robinson, spokeswoman for the Direct Selling Association, a Washington, D.C.-based umbrella group for the direct sales industry. "It reinforces recognition of the product. When the consumer sees it on the store shelves, they are more likely to buy the product because they are familiar with it."

For AtHome America president Lisa Brandau, the deci-

sion to go into direct sales came out of a weariness with retailing. She and her sister, Becky Wright, opened Country Peddlers & Co. in 1982, but decided ten years later to go into direct sales because the schedule was more flexible for their young families.

"We wanted to give women an alternative to going to work outside the home," she said. "Every time we welcomed a home style specialist we were opening another store."

AtHome America has about 6,000 representatives in all 50 states, filling orders from a 340,000-square-foot warehouse outside Chicago. The compa-

ny's product mix includes dinnerware, small furniture, entertaining and serving pieces, baskets and some food products.

Kirk, 38, a mother of three, has been with AtHome America for more than eight years, moving from California to New Jersey and finally to Jackson, Mo., during that time.

She uses a variety of techniques to sell the products, and doesn't limit herself to home shows.

"I always make my home shows interactive," Kirk said. "No one wants to sit and listen to a speech. I want them to sit back and relax and have fun."

Taking the Party Approach Far Beyond Tupperware



Terry Kociolek of Severn, Md., who organizes parties to sell Pampered Chef products, supervises about three dozen people. Marty Katz for The New York Times

By HILLARY CHURA

Move over Tupperware and Mary Kay. Food, gadgets, candles, baskets, jewelry, pet products, scrapbook supplies, clothing and toys are now crowding kitchen tables of home-based entrepreneurs, just waiting to be sold at intimate parties of family and friends.

Direct-sales consultants like Kelly Anderson of Indiana, Pa., are completing their busiest season, with several parties a week that generate commissions that could well cover their holiday gift costs. The Direct Selling Association estimates that more than 13.6 million Americans are in the business, most part time. The group said that 2004 sales were just shy of \$30 billion, up almost 30 percent from 1998.

Even traditional retailers are getting into the action. Jockey International and the Body Shop, for example, have rolled out direct-sales units, with products that are sometimes identical to those offered in stores. Southern Living magazine also introduced Southern Living at Home, where shoppers can buy products seen in the magazine.

For just over a year, Ms. Anderson has been selling breads, soups, cake mixes and dips from Tastefully Simple. She had been ordering the products for five years, she thought, so why not sell them? Her initial investment in July 2004 was \$250, and \$400 for the first order. She estimates she has made \$2,000 from some 20 parties. Her take is 25 percent of sales.

"It gets me out of the house, I get to mingle with adults rather than just kids all day, and I am making money at it," said Ms. Anderson, a 40-year-old mother of three.

She said she initially was reluctant to go to someone's home with a sales pitch, but "everybody loves to eat, so the product sells itself."

Like many direct-sales consultants, she enlists friends, neighbors and others to hold parties. Hostess requirements vary, with some companies expecting them to buy supplies with the promise of discounts and gifts. Sales representatives like Ms. Anderson, meanwhile, are on hand for demonstrations, questions and formal or informal presentations.

Some people invited to these parties liken the experience to the hard sell of a private nursery school fund-raiser even though the products are good quality and sometimes useful. Most were reluctant to be named for fear of offending the friends or relatives sponsoring the parties.

Terry Kociolek of Severn, Md., does not feel guilty about soliciting friends. To start her Pampered Chef business, Mrs. Kociolek had to enlist four people to do a show. "They're not doing you a favor," she said. "You are doing them a favor. You teach them how to get meals done very quickly, and they can earn \$150 in high-quality kitchen products."

She started selling the kitchen gadgets five years ago and now supervises about 35 people. Mrs. Kociolek still runs kitchen shows where she prepares recipes with Pampered Chef wares. She said hostesses

buy no more than \$20 in groceries, which she turns into a meal. They can receive discounts and gifts, depending on how much money the event brings in.

The part-time element was a big draw, Mrs. Kociolek said. A mother of three, her youngest, Michael, is 13 and has learning disabilities. "This is something I can do and still be home when school is closed, and we don't worry about who is staying home with Michael," she said. "You can

Even Jockey is making use of hosts who offer a sales pitch with the dip.

have a family and a business and succeed. You put into it what you want back out of it."

She said her events averaged \$700 in sales, and her profit was about \$210, though consultants earn less if they have no one to supervise. Her upfront cost was \$90, but she received \$350 in products for shows. Mrs. Kociolek said she primarily worked nights and someone putting on two shows a week would probably have to spend an additional night doing paper-

work and other preparations.

Independent sales representatives are based nationwide. For many, the parties are not necessarily moneymakers but a diversion or a way to receive a discount on products they would buy anyway.

Being a supervisor appealed to Cynthia Koenig, an occupational therapist for children, in Chicago. Before her son's birth in October 2004, Ms. Koenig had thought about having a home-based business but found that many required too hefty a membership fee.

She said Natural Family Boutique was appealing to a new mother because of its eco-friendly, family-oriented toys, moisturizing creams, diapers, jewelry and parenting books and CD's. Start-up costs were \$99, with an agreement that she would sell at least \$100 worth of products each quarter.

"Initially I felt I wanted to buy the whole catalog," Ms. Koenig said. "It was a great way to network with other mothers, not so much about selling the product as much as it is having a party with friends."

Because she is in the start-up phase, she said, she earns only about \$200 a year. Much of her time is spent trying to cultivate party hostesses. She said her goal was to recruit people she could supervise. She would then receive a portion of their sales.

"I would sit back and still keep up with parties, but for the most part, the plan is for this to be a great source of passive income for me," said Ms. Koenig, who plans to move to Santa Fe, N.M., with her family. She said another plus was that the business was portable.

Not all home-based consultants work from large houses with plenty of room for stock. Cassandra Wetzel, a full-time civil engineer, sells Longaberger baskets from her one-bedroom Manhattan apartment. Ms. Wetzel had been collecting for about 12 years and became a consultant three years ago to get the discount.

Her initial cost was \$500 with an agreement to set up six shows, though she said commissions from those events usually cover start-up fees. She estimated she would net about \$1,000 a year after tax.

Ms. Wetzel sells most of her wares via the Internet, though she has periodic informal gatherings at her home with appetizers, drinks and the new items. A mother of a toddler girl, Ms. Wetzel trolls sites like urbanbaby.com, a city-specific online message board for parents, and recommends the organizing baskets, pottery and other products.

She loved the goods so much, she said, "that you naturally kind of want to tell what the product is about and where it comes from."

Will Big Yellow Box be full of profits?

Binney & Smith's direct-selling house parties show craft projects to children and parents.

By Dan Shope
Of The Morning Call

Several days before Christmas, former school teacher Alison Saeger Panik demonstrated Big Yellow Box products to eight women and their 13 daughters.

For nearly two hours, Panik of Emmaus answered questions and described how to make projects from the kit, which is filled with products made by Binney & Smith of Forks Township.

As the girls and their moms sat in a semi-circle, Panik described each of the objects in the Big Yellow Box. It seemed to mesmerize nearly everyone.

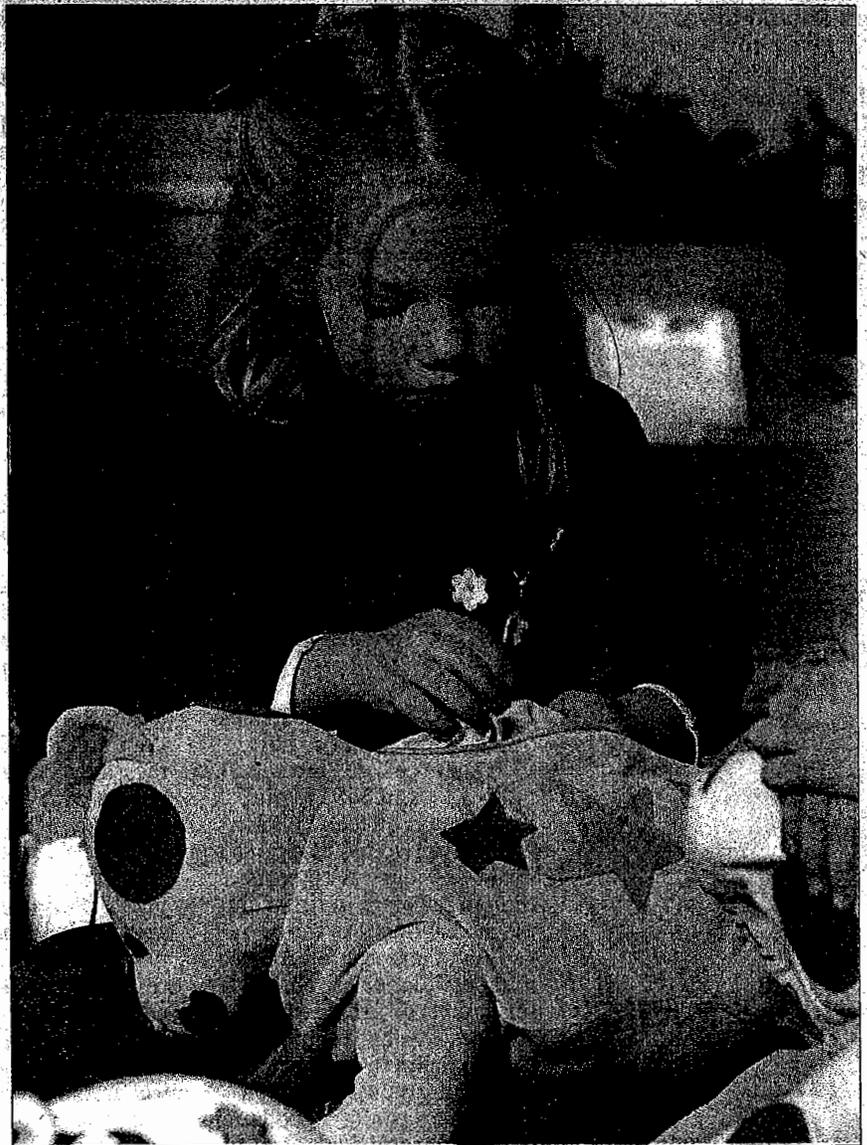
Afterward, two girls, who attend Upper Perkiomen Middle School, shared their impressions. "I liked the soccer ball," said Lauren Gibbs, 11. "I thought it was pretty cool how it could be painted."

"I made sure I brought my mom for the money," joked Lindsay Brust, 12.

BOX PAGE D6

BIG YELLOW BOX

- **What:** Binney & Smith's direct-sales effort
- **Launched:** 2004
- **How it works:** Sales people hold demonstration parties in friends' homes to sell items that Crayola-maker Binney doesn't sell in stores
- **Products include:** Craft items such as piggy banks and picture frames that you decorate
- **Headed by:** Sue Rusch, a former executive of Pampered Chef



LIANA PANIK, 5, daughter of consultant Panik, looks over her Prr-fect PJ Pal project during a Big Yellow Box party in East Greenville.

Ed Landrock The Morning Call



Ed Landrock The Morning Call

HANNAH WIBLE, 11, holds her finished clip d'arte project at a Big Yellow Box party that was held at her house in East Greenville.

BOX

FROM PAGE D1

Such comments have convinced Binney officials that there's big potential in the Big Yellow Box, the Crayola-maker's direct marketing program.

It's essentially a Tupperware party for crafts. Big Yellow Box consultants show off Binney craft projects at in-home parties. Prices range from \$14.95

for a Starburst Pillow to \$49.95 for Dream Piglets (three piggie banks to decorate).

Binney doesn't release sales figures, but says the program, named after the company's yellow box of crayons, is growing. The company will add 24 items this year, after starting with 15 in 2002. The products are not sold in stores.

"Some people at the company said, 'Let's go to the selling industry,'" said Mark J.

Schwab, chief executive officer of Binney. "It's a place where we've never been, but people love Crayola."

The parties, he said, provide a new selling option.

"It gives us an opportunity for people to see products that require a demonstration," Schwab said. "That's very difficult to do at retail level. It will make more people loyal to the Crayola brand."

Nationwide, the direct sales business grew more than 20 percent from 1999 to 2003, to \$29.6 billion a year in sales. Other established retail businesses have entered the market in recent years, including Lillian Vernon, The Body Shop and Jockey for Her. Some long-time direct sellers include Avon, The Longaberger Co. and Mary Kay. Together, they employ more than 13 million people who sell products face-to-face.

Showing that it's serious about direct sales, Binney & Smith recently hired Sue Rusch as vice president and general manager of Big Yellow Box. The Minneapolis native worked from 1983 to 1998 as an independent senior executive sales director for The Pampered Chef. The Addison, Ill., company sells kitchen utensils and is a leader in the direct selling industry.

Rusch then founded her own 1,500-employee, direct-sales company.

"The fact that Sue is here says the company is moving forward on this," Schwab said.

"We are past testing. Let's bring in people from the direct sales industry who really understand the business."

Rusch said she was drawn to Binney & Smith because of the "incredible potential" of Big Yellow Box. She said the product is strong, but she can help make sure that consultants know the fundamentals.

"We can teach people how to hold a party," she said. "We can train them how to pick up a phone and make calls to fulfill orders and get shipments on time."

"In 20 years, I've become aware that a person's background is not a predictor. Skills aren't. The predictor for success is their level of desire and passion."

Panik, the former teacher,

has been with Big Yellow Box since it was an idea in a brainstorming session Binney & Smith held to test the market. When the business was launched in Atlanta, she participated as product demonstrator and Big Yellow Box party trainer.

She had resigned her position in the East Penn School District when her daughter was born. "This helps pay the mortgage," Panik said.

Of course, the Big Yellow Box is small compared to the crayon company.

Binney & Smith ranks No. 21 among Lehigh Valley employers with 1,150 workers. Including its global operations, the company employs 1,400.

It has grown from \$65 million in sales in 1976, when it was a public company, to \$500 million in 2004 under parent Hallmark Cards of Kansas City, Mo. It offers a range of arts and crafts products, from markers, paints and chalk to Silly Putty, computer software and easels.

Schwab said Big Yellow Box is a good fit for Binney & Smith, which is in its second century of making products for children.

"This is a place we should be," Schwab said. "Everyone has fun at a party. When it comes down to helping children express their creativity and working with moms and dads and teachers and aunts

The Party Zone

Home businesses are growing in Hawaii and providing sellers with additional income

By Erika Engle

eengle@starbulletin.com

Home parties and other methods of direct sales feed a \$30 billion industry.

That's a lot of Tupperware, laundry soap and vitamins.

Big Yellow Box is one of the newest home-party businesses to come to Hawaii. Nancy Usui, a full-time communications administrator, is the

Crayola division's first independent consultant in the state and hosted her first party earlier this month.

• Big Yellow Box customers decorate home accessories, jewelry, even soccer balls, using Crayola products.

Tupperware parties have been going on in the islands since before Marjorie Sasaki started hosting them more than 38 years ago.

You have probably heard the word "Tupperware" all your life, as the business was established in 1946, but this

is no longer your mother's Tupperware company.

It still sells the familiar food storage containers, cups and sipping lids for babies transitioning from bottles, and Jell-O molds with changeable snap-in center designs.

However, the company has expanded its product line to include high-end cookware, knives, kitchen gadgets, silicone baking mats and sexy serving ware for entertaining.

Big Yellow Box and Tupperware are just two of nearly 350 members of the Direct Sales Association, a Washington, D.C.-based national organization of companies engaging in direct sales.

Other members include Quixtar, the multilevel

marketer formerly known in the United States as Amway, Herbalife, and Avon, which was among DSA's first members when the organization was founded in 1910.

Its members sell everything from air filters to cosmetics, and scrapbooking materials to wine and wine accessories.

Its sales force of independent consultants is 80 percent women.

Extra money is just one reason people get into the home-party businesses.

Often, people get into it for one reason, but they stay in it for another, said Amy Robinson, director of communications and media relations. Some like the social contacts, the fun and fellowship with friends, old and new. Others just like to have a little better vacation each year and fund it with the home-based business income, she said.

For Sasaki, being a Tupperware lady enhanced her family's lifestyle.

"Our quality of life has been very good," Sasaki said. Her husband, Ronald, is a mason and she worked full time or part time while raising four children.

Please see Party, D5



THEBUZZ

Erika Engle

Party: Annual industry sales have climbed to \$30 billion

Continued From D1

She wanted extra income, but she didn't want the extra work to take her away from her children.

"Someone asked me if I'd like to (sell Tupperware) part time," and she was off and running. Through her life, the time spent on her home business has fluctuated. "It let me change according to what I wanted or needed," she said. "It's very flexible, in Tupperware."

Usui never imagined herself "doing something like this," she said of her home-party business.

"But when I heard Crayola had launched this new opportunity with Big Yellow Box and I heard no one in Hawaii had been doing it, I thought, what the heck, I'll be the first," she said.



FL MORRIS / FMORRIS@STARBULLETIN.CC

Her husband, John, "encouraged me to check it out and has been very supportive."

Usui also liked the unique products to craft and personalize. "When I go to the craft store, I don't know what to buy, but (with this business) everything comes in a big yellow box and they take you all the way through it."

Usui's first party started with a giveaway of Crayola products. Guests then reviewed a catalog and many placed orders for items to make at home later on.

A piggy bank and step stool Usui and her husband prepared for the party were displayed and guests had a choice of projects to make, including one in which pewter charms can be personalized with different colors.

Partygoers' orders arrived within two weeks and Usui and her husband got to reconnect with guests as they made deliveries.

Crafting Crayola creations is something Usui looks forward to doing with her 15-month-old daughter someday.

"I like the fact that the products offer family bonding, time away from the TV, are nontoxic and are from a highly reputable and trusted company," she said.

Her next party is in Mililani in a few weeks, and, in the future, I'd love to organize school fundraisers, or have groups do a girls' night out by placing orders for their products in advance, and once they arrive they can get together for a craft night and make the projects together!

It also could work for a bridal shower, baby shower or kids' party, she said.

Sasaki is back to working full time for Asia Crown, a wholesaler of Hawaiian souvenirs, so she doesn't host too many parties these days. Then again, she doesn't have to.

"I have regular customers, people that refer back to me," she said.

"I still have people that need Tupperware because of children, or grandparents and the grandchild need something, or the auntie needs something."

As with many other home-party businesses, Tupperware partygoers are asked if they want to become consultants. There are as many as 75 people selling Tupperware because of Sasaki.

Sellers now have the Internet to place orders and perform other functions, though Sasaki

handles her business by phone.

About 70 percent of the industry's annual \$30 billion in sales are from person-to-person type businesses, such as Mary Kay, while the rest come through home parties, said Robinson.

"The interesting thing about a lot of the companies is that the consultants will do a little of both." It is a matter of what fits best into their way of selling, she said.

There is no way to nail down how much money is made by Hawaii's direct sellers, or, by extension, the activity's tax revenue impact for the state.

The DSA doesn't track state-by-state sales figures. The state does track tax revenues from sole proprietorships and from retailers, but does not break out sales from home-party or other direct sales businesses.

The total probably isn't significant, according to Kaneohe Certified Public Accountant Ted Talbott.

"In my 20 years, I've never met anybody that made more than minimum wage," doing a home-party business, he said. "They may be out there, but they sure don't make it to my office."



Nancy Usui, a consultant for Big Yellow Box's Crayola division, says the ability to craft and personalize products is appealing to partygoers. At left, Jadelyn Yasuoka, left, and Nicole Choy assemble "make and take" jewelry.

Tupperware used to allow consultants to keep 35 percent of their sales, but now, as with Big Yellow Box, the compensation is 25 percent. Other companies' policies vary, Robinson said. Prices of starter kits also vary widely, as do sales targets.

The business operation and tax-compliance end is up to the individual, though the companies do offer some guidance, she said.

"A lot of companies do have an educational element to work with consultants," Robinson said. "They make sure to provide different tools to build their businesses," often at the companies' conventions.

"It isn't just about selling product, but about developing business skills so you can effectively sell the product," she said. People making full-time salaries on direct sales "didn't start yesterday."

Regulation of home-based businesses in Hawaii is negligible and is more about taxation.

The state does not require that an independent consultant, or sole proprietor, register as a business with the Department of Commerce and Consumer Affairs, said spokeswoman Christine Hirahara. The law does, however, require them to obtain a general excise tax license, she said.

Unreported income among independent consultants is a concern for the direct sales industry, but the Internal Revenue Service has told the DSA it believes compliance is high for the most part, Robinson said.

Sasaki couldn't say how much she has made over the years, as she's never tallied it up. Usui's goal is \$300 each quarter.

One thing is clear. In choosing a home-based business, one must consider how much of the product one wants around the house.

Sasaki's children, now grown, "are Tupperware'd out," having been around the business all their lives, she chuckled. However, that doesn't stop Mom from giving them the newest, coolest Tupperware as gifts at Christmas and on special occasions.

On the Net:

- >> www.bigyellowbox.com
- >> www.tupperware.com
- >> www.dsa.org

Erika Engle is a reporter with the Star-Bulletin. Call 529-4302, fax 529-4750 or write to Erika Engle, Honolulu Star-Bulletin, 500 Ala Moana, No. 7-210, Honolulu 96813. She can also be reached at eengle@starbulletin.com

Home tree



Photos: • Tomboy Tools

▲ Jennifer Imel (left) is president of Tomboy Tools, and Janet Rickstrew is the CEO.

When Cristine Heil started selling Mary Kay Cosmetics 14 years ago, she wanted extra money in her pocket.

Today, the Tyrone Township mother of three spends 30 to 40 hours on her business and about 25 of those in her home office built specifically to accommodate her expanding business. She has a six-figure income and is driving her fifth free Cadillac.

Heil is a senior sales director for the cosmetic giant and a success in the direct sales industry. An industry that has meant opportunity for hundreds of thousands of women.

But she is not the norm, said Amy Robinson of the Direct Selling Association, the national trade association of the leading firms that manufacture and distribute goods and services sold directly to consumers.

"Median income is \$2,400-\$2,500 per year and average is \$13,000," Robinson said. "The difference is affected by full-time direct sales consultants who make a living at it. But they aren't the average."

Robinson said the average person in direct sales

is someone looking for supplemental income. Someone who needs a new refrigerator or some extra money for vacation.

"For most people it is not a full-time job," Robinson said. "Only about 10 percent of people in direct sales do it full time. The other 90 percent are in it for various reasons, but on a part-time basis."

According to the DSA, there are 13.6 million direct sellers in the United States generating \$29.7 billion in sales. Of those sellers, 75 to 80 percent are women.

Worldwide, there are 54.3 million direct sellers doing an

Home: Sales people love flexibility | ◀ D1 D

estimated \$95.6 billion dollars in sales, according to the World Federation of Direct Selling Association.

While she may not be the norm, Heil is a testament to the potential of direct sales opportunities.

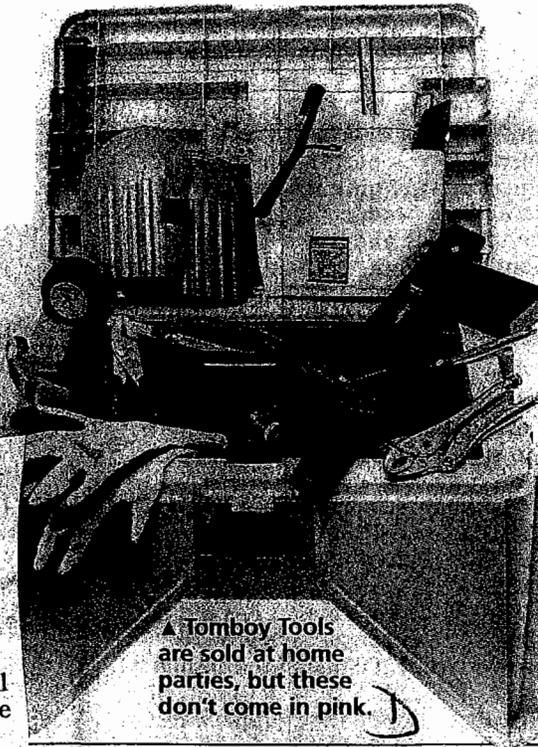
In the 14 years that Heil has been selling the cosmetics, the sales encounters have become shorter and faster.

"We no longer have classes, we have parties," Heil said. There are Mary Kay rock parties where customers can get pink ice rings, have fun and get products, pampering appointments and make it a girlfriends night out, she said.

"It used to be an evening, now it's an hour and a half. We're in and out."

The direct sales industry is really getting hot right now, said Karen Kearns, of DeVries Public Relations, who speaks on behalf of Tupperware.

"As the direct sales industry continues to grow, Tupperware continues to grow its consultant base," she said.



▲ Tomboy Tools are sold at home parties, but these don't come in pink. D

The plasticware maker has more than a million consultants around the world and 100,000 in the United States, she said.

Kearns said the first Tupperware party was held in 1948 and was more like a technical demonstration — how to seal the bowls.

Today, the parties — and there is one every 2.5 seconds somewhere in the world — have more of a "Sex and the City" kind of feel, she said.

"It is more of a party atmosphere. There's music, food, more of friends getting together. There are cocktails and not just someone doing a demonstration. It's a lot more lively. A lot more fun. It's a much younger crowd going to the parties."

Kearns said even Hollywood is getting in on the trend.

Melissa Joan Hart reportedly had a Tupperware party at her bridal shower.

Ice T and Marisha Hargitay had a T-party as did Zoey Deschanel, Ginnifer Goodwin and Naomi Watts.

"The direct sales industry is booming right now, Kearns said. "Scrapbooking parties, Tupperware parties, parties for their dogs. It's ridiculous how many (people) are having them now."

"I guess in our busy lifestyles, it is easier to go to a friend's house than to the stores."

That's why Sheryl Zdunic modified the basement of her Vernon Township home in Shawwassee County to accommodate the 250 women who buy her Creative Memories scrapbooking products.

Zdunic began selling the craft favorite nine years ago as a way to get her scrapbooking supplies at cost.

Today, she works about five hours a day on sales and hosts two crops (10 to 12 women work on their photo albums in her basement for five hours at a time) and two

or three events for beginners each month. She is a senior unit leader to 62 other women.

"The big word here is flexibility," said the mother of four. "I can choose to work when I want to work. I can take my planner and block off days that I choose not to work. Long, four-day weekends. (When it comes to teaching), I can take off the whole month of August and December."

"The most beautiful aspect of my job and the most important thing is I am home when my girls get home from school, and many days with a hot, cooked meal in the oven."

"They come home to the scent of dinner cooking and Mom is home ready for them. I'm physically here for them and that is huge for me."

Alongside makeup, storage containers, scrapbook materials and

other female-oriented products is the newcomer to the direct sales business, Tomboy Tools.

Marketed to women, the tools are sold at home parties and come complete with hands-on training.

"We have a lot of professional women doing it part time," said Jennifer Imel, company president. "We have a lot of stay-at-home moms. A lot of people doing this after they retired. We even have a couple of men doing it because they enjoy teaching women."

In the United States, Tomboy Tools has 550 consultants; in Canada, 125.

"It provides an avenue for social activity," Imel said. "It provides an opportunity to have a night out with other adults. It's an opportunity to make additional money. It's a very good paying part-time job."

Our party salesperson's income can average \$160 an hour.

"By 2010, there will be 31 million single, female homeowners," she said. "That's up from 19 million today."

Imel said 85 percent of those women will be solely responsible for a home at some time or another — acquisition in divorce or when their significant other dies.

"Baby boomers are a big segment, and women live longer," she said. "That generation has not had an opportunity to try anything with tools. It's out of the traditional realm."

"A magical thing happens when they try a drill and it's not that hard. And they try it in the comfort of home."

"It's not like sales. We're teaching women something very valuable."

For more information:

- Mary Kay Cosmetics
Cristine Heil
(810) 750-0770
- Tupperware
www.tupperware.com
- Creative Memories
Sheryl Zdunic
(989) 288-5554
- Tomboy Tools
www.tomboytools.com or (303) 722-1003.

And there's more

A twist in the direct sales story is the move by established retailers into direct sales. Robertson of the DSA said crayonmaker Binney & Smith now offers the Big Yellow Box at-home parties. Lillian Vernon, a catalog retailer of home decor and seasonal products, has entered direct sales with Celebrations. Jockey has Jockey Person to Person, and Jones Apparel Group, including Nine West, just launched Million Wishes to sell accessory items to complement its clothing lines.

"It's a brilliant strategy for reaching new markets," Robinson said.

"The next time (customers) go into a store and are faced with a decision to choose, they will reflect on the positive experience they had at home, which is a good reason to purchase that product."

Feeling

at home

EXPRESS-TIMES

EASTON, PA
FRIDAY 50,522
MAR 31 2006



Guests browse through catalogs at a Big Yellow Box home party at the Northampton home of Devon Pickering.

EXPRESS-TI

**MALLS AND THE INTERNET
HAVEN'T KILLED OFF DIRECT
SALES.** You can still have
a host of salespeople come
to your door.

BY DEBRA K HESS
The Express-Times

Once upon a time, direct selling was best recognized as vacuum cleaner and encyclopedia salesmen knocking door-to-door to stump their products.

In the name of progress, malls, countless product catalogues and now the Internet world, it would seem direct selling would be knocking on death's door.

Surprisingly, that's not so. Today, in spite of Internet sales and mega malls, there is a greater interest in direct selling, says Jackie Hampton, program manager for Potomac Communications Group, part of the Direct Selling Association. "A social side to direct selling has emerged, like hosting in-store or home parties, for example," Hampton explains.

Many traditional companies including the Body Shop, Hallmark and Binney & Smith, have used direct selling as another channel by which to increase their bottom line, Hampton adds.

Selling is fun

Can direct selling be fun? Yes, ac-

ording to Sue Rusch, vice president and general manager of Big Yellow Box by Crayola, launched in 2004.

With the Big Yellow Box experience, Rusch says, "What people appreciate about the party is having an opportunity to be experiential."

For example, at a BYB home party, participants may engage in making a craft together, like necklaces or bracelets using beads and charms.

According to Rusch, direct selling reaches people of all ages in ways they never thought before and appreciate the encouragement to express themselves.

"At the end of the day," Rusch says, "people really value that experience."

Tom Vanino of West Lawn, Pa., has been a consultant for the Big Yellow Box since August 2004.

The former elementary school teacher says being a consultant "fits like a glove" into her lifestyle. Vanino says there is a lot of energy at these home shows where families and friends become connected.

"It's not just about making a craft," she adds. "It's all about creating memories and milestones."

Avon calling

Wanda Mazzie of Palmer Township has been an Avon representative for 20 years. Mazzie never has gone door-to-door in all her years of selling. She started out selling to friends and neighbors. Now she puts out about 300 books with samples and note cards everywhere — including restaurants, banks and hair salons.

Mazzie has a wide customer base that stretches from Bethlehem to Clymer Village in Phillipsburg.

"For people who cannot get out shopping, it is easy for them to buy Avon products," she says. Some of them buy shampoo and such items. But others buy Avon products for gifts around the holidays for children and grandchildren."

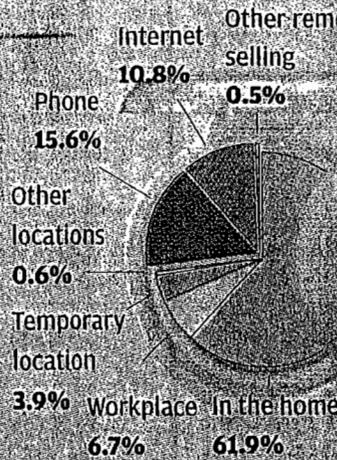
It may be difficult to believe Mazzie's success in a world of fast Internet connections and instant, online credit for quick purchases. Is there a

F | PLEASE SEE SALES, D2

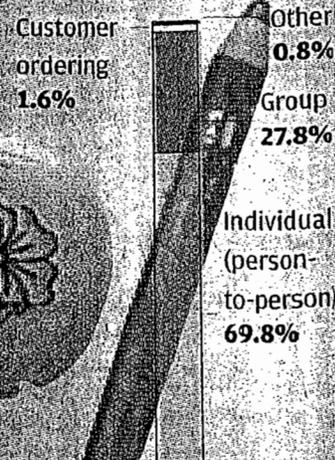
PERSON-TO-PERSON SALES STILL POPULAR

Companies such as Avon, Binney & Smith and Hallmark employ direct, or person-to-person, sales as supplement to Internet and mall-generated income.

Points of sales



Methods of sales



Legend: Person-to-person (dark grey), Remote (light grey)

SOURCE: Direct Sales Organization 2003 sales data

EXPRESS-TIMES GRAPHIC | JAMES MOENIG

DIRECT-SELLING BUSINESSES

■ **Avon:** Women have been selling Avon in the United States since 1886. Visit avon.com

■ **Big Yellow Box:** A craft line launched by Crayola in 2004. Visit bigyellowbox.com or call 800-722-9656.

■ **Home Interiors and Gifts:** A wide assortment of home décor items. Established in 1957. Visit homeinteriors.com

■ **Kirby:** The Kirby Home Care System has been made in America for 90 years. Call 800-437-7170.

■ **Mary Kay Cosmetics:** Each year, consultants vie for awards ranging from jewelry to the company's trademark pink Cadillac, the first awarded in 1969. Visit marykay.com or call 800-627-9529.



PHOTO COURTESY HOME INTERIORS

■ **Princess House:** Diverse variety of gifts, including dinnerware and crystal items. Established in 1963. Call 800-622-0039.

■ **Schwan Food Company:** For more than 50 years, Schwan Food Company has delivered frozen-food products in a yellow truck to customers' doors. Call 800-533-5290 or visit schwans.com.

■ **Tupperware:** The Tupperware food storage seal was patented in 1947. Visit tupperware.com.

Continued from D1

SALES: Feeling at home *F*

secret?

"There is no secret, really," she admits. "I give people the service they expect, personal service. For a lot of the people who cannot get out shopping, it is a social thing. I think people look for that personal touch."

Brenda Peters of Nazareth agrees with Mazzie there is a social aspect to selling Avon products that points to the success of staying in the business for so long.

Peters has been selling Avon for 19 years.

THE DIRECT SELLING ASSOCIATION

■ The DSA is the national trade association of the primary businesses that manufacture and distribute goods and services which are directly sold to customers. There are more than 200 companies which are DSA members.

"When I first started, we were assigned territories," Peters remembers. "We would basically go door-to-door in our certain areas, talk to people, show them the products, see if they're interested, and leave a book."

Peters' business has grown since those early days, mostly by word of mouth.

It is really mixing with the people that Peters likes the most about her business.

"It is nice. Some people see

me as part of the family."

As far as competing with Internet sales, Peters says she finds the products her business offers are comparable in both quality and price, especially the makeup line Avon offers.

"In addition," she says, "Avon has become more diverse. Avon offers more than beauty products. They offer video games, books, clothes, home decorating items ..."

Peters makes another point about face-to-face selling and on-line businesses.

"People like to see the product before they buy it," she says. "Also, delivery is never a problem. They receive their products right to their door and if they need to return something, I take care of that. There are no return charges."

Deck the walls

As a sophomore in high school, Pam Kutzler of Phillipsburg filled her hope chest with Home Interiors products. Today, after 27 years, Kutzler helps other women decorate their homes with Home Interiors products.

"It's not just about helping them decorate their homes," Kutzler says, "it's about helping women build a better life for their families."

Home Interiors does not offer their products on the Internet. Ninety-nine percent of her business is in home parties, book shows and fundraisers.

"Very little business is conducted on the Internet," Kutzler says. "By having a home party, people can browse and get a chance to see the products."

In spite of the daily busyness of people's lives, it seems they always make time to gather with family and friends at a Home Interiors party, Kutzler says. *U*

Deb Hess is a staff writer and edits the Our Town pages.

Courier News

Newspaper archive powered by **NewsBank**

[Archive Search](#) > [Buy](#) > [Print](#)

[» New Search](#) [» Pricing](#) [» Help](#) [» FAQ](#)

[Return to results](#) [Printer Friendly](#)

April 9, 2006

Section: On The Run

Edition: Courier Edition

Page: O10,O11, FEATURES02

TupperWHERE: What's selling in Central Jersey?

*KAREN IRIS TUCKER Correspondent
Courier News*

Feet submerged in an aromatic peppermint bath, a glass of wine in hand, **Jennifer Hennessy** felt thoroughly pampered when she attended a gathering, featuring the sale of Body Shop hair and skin-care products, at a friend's home

B1200610604090301V2.jpg

STAFF PHOTO BY MATTHEW APGAR Guests at a The Bo

Hennessy, 31, of Somerville, said that event updated the image in her mind of such direct-selling soirées.

B1200610604090301H3.jpg

Some of The Body Shop at Home products, including sample-testing wands, a skin file and towel, along with a paper umbrella from a cocktail on the arm of a chair at the end of the shop-at-home party.

STAFF PHOTO BY MATTHEW APGAR

"I had this antiquated notion of what these parties were like," she recalled. **Hennessy** had last been to one with her mother when she was still in middle school. The two sampled cosmetics at a house party for Mary Kay, a veteran to the direct-sales business.

While old hands of the trade -- such as Mary Kay, Avon and Tupperware -- endure, the direct-selling business is now flush with relative newcomers revitalizing the field. Among them is Body Shop at Home, the Body Shop's direct-sales arm, which, like vets in the industry, solicits workers seeking income outside the traditional 9-to-5 office paradigm.

Hennessey is one such worker. Laid off from her job as a buyer for a handbag and shoe company around the same time her daughter, Caitlin, now 10 months, was born, Hennessey said she was looking for an earning venture that would support her role as a new mother.

So, Hennessey bought the Body Shop's requisite home-sales kit for \$220, which includes a large sampling of products and supplies. Consultants for the company make 25 percent of total sales they earn at home parties; they must sell \$400 in products monthly to maintain active status as a consultant. Hennessey estimates her average sales per event are \$500.

"If the party is fun," Hennessey said, "people get excited, and they want to have their own parties. So, you start to build a kind of web where one party links to another. Being a stay-at-home mom, I'm kind of isolated," Hennessey added. "So I get to go out and talk to people about the products and I also get to socialize."

Retailers take it home

Amy Richardson, spokesperson for the Direct Sellers Association, said the direct-selling field has grown from \$25.5 billion in 2000 to just shy of \$30 billion in 2004. She estimated there are more than 400,000 direct sellers in New Jersey alone.

"One of the major trends we have seen," Richardson said, "is the movement by traditional retailers into the direct-selling channel. As consumers become more frustrated with experiences in retail stores," she explained, citing the inability to find knowledgeable sales people, "things like personal service and product knowledge has become that much more important."

One traditional retailer that has ventured into direct-selling is the Edison-based Aerosoles shoes. Nicole Rosser, New Jersey district manager for the well-branded footwear company, said her employees "come into your home and set up," bringing around 125 pairs of shoes, or 20 different styles in a variety of sizes.

Hosts of these parties receive a free pair of shoes for every \$500 in sales, and attendees receive discounts when they purchase two pairs or more. The gatherings take place in the vicinity of Aerosoles stores, including the one at the Bridgewater Commons mall.

Like Aerosoles, Jockey is a long-established retailer with a strong brand name that has entered the direct-selling biz. Kim Gentile, a vice president for the activewear and intimate-apparel company, said the Jockey Person to Person direct-sales division, launched last year, has 400 consultants or "comfort specialists" in 35 states, 10 of which are in New Jersey.

Gentile says her direct-sales force, which includes experienced sellers, also features women outside retail, from a tax attorney and a biology teacher, to a grant writer and former emergency-room nurse.

"Perhaps they've had a career," Gentile said, "and are now deciding to stay home with their children. But they still want to have that balance of being mom, wife and also having something for their business -- something that's theirs."

Lori MacHenry, 37, a seller for Jockey, said the women who attend her parties, typically in their 30s and 40s, "walk in and they're excited to see familiar faces, to get away from the kids and to just hang out in a relaxing and fun environment."

She said she typically sets up shop inside the family room, which is often next to the kitchen.

"After people get their food and drinks, I'll ask them to grab an item that catches their eye and feel the fabric," said MacHenry, who says Jockey's sueded pants and jackets are a best seller for the line. "You feel like you're in your pajamas but you look very put together," she said.

MacHenry, who lives in Sewell with her husband and 2-year-old daughter, opts out of working weekend parties, favoring early evening events during the week. Her main obstacle, she says, is "getting my husband home early enough from work" so he can watch their daughter while MacHenry consults at parties, usually from 7 to 9 p.m.

Creating her own charm

Like MacHenry, Traci DeAngelis of Mountainside has enjoyed the malleable work scheduled afforded by direct selling ever since she started a jewelry business, Charmed & Co., three years ago.

DeAngelis, a mom to two boys, ages 6 and 7, and an 11-year-old girl, says her original challenge in entering the field "was finding a product the market wasn't saturated with."

DeAngelis offers only high-end materials including Swarovski crystal, sterling silver handmade in Bali and genuine stones. Attendees of her home parties create their own jewelry with these materials, rather than simply buying pre-made items.

"People will come to a party and say, 'Oh, I'm not going to buy anything,'" DeAngelis said. "But once they sit down and start putting the turquoise and the amethyst together with a piece of crystal on either side, they say, 'I can't believe I made that!'"

A taste for selling

The intimate nature of direct selling at home events cannot be denied. Consumers experience the product in a far more casual and often comfortable environment than that of traditional shopping excursions, which are often replete with crowds and long lines.

Knowing this, Judy Otterbein, co-founder, with her husband Robert, of the Somerset-based Purely Gourmet, has been able to maximize on the party-plan model in the sale of her food line, nationally.

"You have the opportunity to talk with people and educate them about your product. And they can taste it before they buy it," said Otterbein, whose diverse offerings include easy-to-prepare dips, soups and salsas made from only gourmet ingredients and without additives.

Otterbein's multi-purpose Basil, Garlic and Pine Nut Pesto epitomizes the appeal of her product to time-strapped foodies: Pour half a jar of it into a cup, add olive oil and a little water, microwave for one minute, and pour over pasta or chicken, or drizzle over mozzarella and basil.

Denise Spicuzzo, 33, of Spotswood in Middlesex, became a Purely Gourmet consultant after "having a blast" when she and her sister-in-law attended a home event. "It's a really fun night out," said Spicuzzo, a mother of an 8-year-old boy. "The consultant talks about each product and gives recipe ideas while the samples are being passed around on serving trays."

Consultants for the company prepare the food samples -- around 25 types -- the day of the event, and in the end, take home 34 percent of the total sales. As an added benefit, Purely Gourmet is a consumable product with the opportunity for hefty reorder sales.

"With so many direct-sales companies out there," Spicuzzo said, "people are programmed to say 'no' before they hear anything about the product. So it's a little hard to book parties. But once people know the product, you're set."

Sometimes, Spicuzzo admitted, "If it's a larger party, people will have side conversations and you can't let that throw you. You're in a setting where women are getting together and everyone wants to talk about the food."

Pampered ... what?

Having enthusiasm for your product, is key to success, said Andrew Shure of Shure Pets, whose pet consultants throw at-home "Pupperware Parties" featuring a multitude of products, including the popular Paramount Foaming Cleanser, for a water-free cat or dog bath.

"Our only requirement for sellers is that they have a passion for pets," said Shure, whose Chicago-based company has 40 consultants in New Jersey and a total of 1,100 across the country. He says there are a lot of incentives for selling his product beyond the 25 percent earned from total party sales. "It's a way to get together with your neighbor and talk about pets," he said, "a nice social activity in addition to being a way to supplement your income."

Jennifer Pallito, 33, of Califon recently became a direct seller for Shure Pets to complement her pet-sitting business. While she hasn't yet hosted a Pupperware Party, Pallito has started selling Shure Pets items via her Web site. Like many direct sellers, Pallito is a stay-at-home mom but of a different variety. "I only have four-legged children," she

said jokingly of her cats, puppy and horse.

Is it a career for you? Advantages

Not having a boss -- you report to yourself

Meet new people, building both personal and business relationships

Flexibility to make your own hours and forsake the 9-to-5 grind

Have a part of your life that is uniquely yours

Challenges

Building your initial base of customers after you've sold to friends and family

In a crowded market, convincing prospective clients to get to know your product

Having the discipline to make selling a priority in your life

Staying focused at larger home parties where side chatter often ensues

Copyright (c) Courier News. All rights reserved. Reproduced with the permission of Gannett Co., Inc. by NewsBank, inc.



Partners: [Jobs: CareerBuilder.com](#) • [Cars: Cars.com](#) • [Apartments: Apartments.com](#) • [SI](#)

Copyright © 1997-2006 Courier News. All rights reserved. Use of this site signifies your agreement

Gannett New Jersey Group: [Asbury Park Press](#) • [Courier Post](#) • [Daily Journal](#) • [Daily Record](#)
• [Ocean County Observer](#) • [Times Beacon](#) • [Nuestra Comunidad](#) • [Other Gannett](#)

BUSINESS

SUNDAY, MAY 7, 2006

The Home Is Their Store

Col. 1

'Shopping Parties' Entice Hosts' Friends to Spend

By YLAN Q. MUI
Washington Post Staff Writer

Retailing's biggest names are throwing a party, and it's BYOW — bring your own wallet. That's because it's a shopping party, better known in the industry by the more mundane name of direct selling and once the sole province of Tupperware and the Avon lady. But recently, established brands have rediscovered the concept as they search for ways to connect with busy, and often fickle, customers.

Crayola jumped into direct selling two years ago with a division called Big Yellow Box. Jockey's Person to Person launched last year, and the company recently hired a "comfort specialist" for the Washington area. And in March, Jones Apparel Group, which owns Nine West and Barneys New York, started Million Wishes to sell fashion accessories at home-shopping parties. All of these companies have recruited teams of representatives, a la Tupperware and Avon, to push products in home settings.

"A growing number of companies recognize the benefits associated with direct selling — low overhead, robust cash flow, a highly motivated workforce and loyal customers, among others — and are diving into the direct-selling market," said Neil Offen, president of the Direct Selling Association.

According to the trade group, membership last year was 265 companies, up from 204 five years ago. That number includes other well-known brands such as the Body Shop and the Pampered Chef. The industry racked up \$29.73 billion in sales in 2004, the last year for which data are available. In 1994, sales were at \$16.55 billion.

Several retailers said direct selling is attractive because it helps customers connect with their brands in a

Right, at a direct-selling party for Shure Pets, consultant Lynda Wilderson talks to guests about the firm's products. Far right, Jockey last year launched a direct-selling division featuring fine fabrics. Above, Jones Apparel Group's Million Wishes sells fashion accessories, such as this turquoise belt, at home parties.



PHOTO: PARTY PHOTO BY ROBERT A. REEDER — THE WASHINGTON POST; APPAREL PHOTO COURTESY OF JOCKEY PERSON TO PERSON INC.



PHOTO ILLUSTRATION BY JULIA EWAN — THE WASHINGTON POST



BY ROBERT A. REEDER — THE WASHINGTON POST

At a direct-selling party for pet-product retailer Shure Pets, consultant Lynda Wilderson talks about her line of products on display in the living room.

Direct-Sales Parties Revive as Retail's Big Names Jump In

PARTIES, From F1

positive way. The parties, usually thrown by a company's female sales consultants for their friends and acquaintances, can be as much about socializing as they are about shopping.

Often, established companies will create separate, higher-priced lines of merchandise for their direct-selling divisions to avoid competing with their products sold in stores. Direct-selling lines can include merchandise that may be complicated to use and require a trained salesperson to demonstrate.

At Jockey, the direct-selling division has become a home for fancy undergarments that didn't fit the brand's traditional comfort-first image, said Kim Gentile, vice president of sales. The Person to Person line allows Jockey to branch out into silky microfiber and rayon fabric made from bamboo — and charge more for it. The line costs about 15 to 20 percent more than its regular label.

"This is a chance for us to offer fine fabrics, wonderful details, laces on the bras," Gentile said. "A lot of times, people will look at our products and say, 'Wow, that's Jockey? I had no idea.'"

Jones Apparel Group is using its Million Wishes division to target

women between the ages of 30 and 55, an underserved demographic that fashion retailers have just begun to tap, said division President Betty Palm. The merchandise follows fashion trends, such as "global village," which employs spice colors, and "nautical prep," which emphasizes gold chains and red, white and blue.

"Women are often overwhelmed by the breadth of product choices out there," Palm said. "They were really looking for someone to help edit."

Some of the products created for the Million Wishes line require a tutorial to use, such as a multi-strand necklace that can be taken apart or a black belt with several buckles. Direct selling allows such product demonstration, Palm said. But most important, a salesperson can help translate fashion trends for the customer. And the fact that the two are often at least acquaintances may help clinch the deal.

"A lot of honest feedback that they got from their friends ... made the experience more fun," Palm said.

But that same element has also given direct selling a bad reputation, as friends can sometimes feel pressured to buy or, in some cases, start selling the products themselves. Sales representatives typically are paid by commissions.



BY ROBERT A. REEDER — THE WASHINGTON POST

Party host Vera Fontana offers doggie popcorn to Madeleine and Bleu while consultant Lynda Wilkerson talks about Shure Pets products.



BY ROBERT A. REEDER — THE WASHINGTON POST

At a direct-selling party for Shure Pets, even the hosts' dog, Nick, gets into the spirit.

and some may get perks for getting new representatives to sign up.

That structure makes it an easy mask for pyramid schemes, which focus on recruiting rather than selling products. It is illegal to pay a representative for recruitment.

This month, three executives of Boston-based World Marketing Direct Selling Inc. and One Universe Online Inc. were charged in federal court with operating a multimillion-dollar pyramid scheme that preyed on Cambodian immigrants. China recently reopened its doors to Avon after banning direct-selling companies in 1998 following a rash of pyramid schemes.

Industry growth peaked in the mid-1990s but has trailed total retail sales growth for several years, according to data from the Direct Selling Association. Still, the volume of direct sales has increased every year for the past decade, and the entry of well-known brands into the industry has helped restore its credibility.



COURTESY OF SHURE PETS

Shure Pets Yappy Meal includes cookies and a flying disk toy.

sells craft kits featuring Crayola products that can be done with kids at a shopping party.

One of its most popular kits is the Dream Pig. The kit comes with a ceramic pig, Crayola paint, sponges and other art tools "to make him have all kinds of personality," said Sue Rusch, vice president and general manager of Big Yellow Box. The project is designed for parents to do with their children and sells for \$39.95.

"We've already been in homes," said Rusch. "Parents just want more of Crayola in different ways."

Binney & Smith Inc., which owns Crayola, launched its direct-sales division Big Yellow Box by Crayola in 2004 and has about 1,500 sales representatives across the country.

The division

Still, direct selling remains largely the province of small start-up businesses hawking sex toys or shampoo.

Andrew Shure, founder of Shure Pets, started his company in 2003 and decided to use the direct-selling model because of the passion — some call it obsession — pet owners have for their animals. His product line includes a dog stroller, car seat, even perfume. The average party sale is \$400.

"My experience walking in these big-box stores is that the people may not be that knowledgeable about the products that are on the shelves," he said. "When I look at the party format, it's a fantastic opportunity for people to sit down and discuss the products."

washingtonpost.com

View a photo gallery from a Shure Pets party. Go to washingtonpost.com/business.



THE PLAIN DEALER

Popular house parties mix buying and socializing

Wednesday, May 24, 2006

Ginger Burnett
Special to The Plain Dealer

A dozen friends gather to indulge in a morning of mini pedicures, facials and other skin-care treatments while dining on quiche and mimosas topped with fresh raspberries.

In the background, a fire crackles, new-age music emanates through the room, and a citrus-herbal scent wafts through the air.

"Feel my hands!" one woman excitedly says, extending her wrist outward while clutching a champagne flute in the other. Her friend touches the top of her freshly exfoliated hand and coos, "It feels like butter!" in response.

It may sound like an expensive day of pampering at a local spa. But in reality, the women are enjoying free beauty treatments at a BeautiControl spa retreat in the welcoming confines of a friend's home in Bay Village.

"It's so much more expensive to go to an actual spa," says guest Danielle Matthews of Brook Park, who came to shop the Dallas-based company's latest lines of skincare and makeup. "Here, you have an expert catering to you."

The hottest new place to shop for clothing, jewelry, beauty and spa products is not the mall but the home. For many women, that one-on-one attention from a knowledgeable consultant amid comfy surroundings creates the ideal shopping experience. Add food, friends and a little wine to the mix, and a few hours of fun can also mean some major cha-ching for the host.

Last year, the direct-sales industry raked in a whopping \$30 billion, according to the Washington-based Direct Selling Association, which monitors approximately 200 companies. Businesses offering cosmetics, jewelry, clothing and skin care constitute 31 percent of the market with an impressive \$9.3 billion in sales for 2005, says Amy Robinson, spokeswoman for the Direct Selling Association.

"It's really a brilliant business strategy," says Robinson. "You know your product is going to get out there and in front of the consumer." Three out of four Americans, she notes, have bought something through direct sales.

Nothing compares to the in-home shopping experience, says Marci Smith, a former Mary Kay consultant who now sells BeautiControl products. "Why wouldn't a friend want to relax in their own or a friend's home versus going to the mall?" she says, rattling off the headaches of retail hell - long lines, parking woes and clueless sales clerks. "But with an independent consultant, you always have that person to count on."

In-home shopping also sidesteps the intimidation factor often associated with high-end makeup counters and sleek glass cases chock-full of expensive jewelry.

"That's a huge draw for people," says Robinson. "When you're at a party, you can take your time deciding, and it's a very relaxed atmosphere. You can ask what your friends think, and it's a lot of fun." Just as appealing are the perks for those who host the show - often a boatload of free booty.

"Our hostesses can walk away with \$300 to \$500 worth of jewelry for free," says Lisa Irwin, a division manager with Lia Sophia, an upscale jewelry direct-sales company founded by the Kiam family, which owns Remington razors.

At Irwin's parties, ladies break out the wine and play "big-girl dress-up."

"I tell them, 'I can make you look like a million bucks without spending a ton of money,' " Irwin says. "And then I teach them how to accessorize with the different jewelry pieces."

Clothing is also hot among direct-sales parties. In contrast to the prospect of standing alone in a dressing room, wondering if a pair of jeans makes your rear end look fat, companies such as Weekenders and Carol Anderson with Invitation (also known as CAbi) offer one-on-one fashion consulting to guests at in-home parties.

"You're getting a personal shopper, but she's coming to your home," says Patricia Brose, spokeswoman for Weekenders, whose in-home fashion coordinators help women choose basic wardrobe pieces.

In-home parties have been a boon for everyone involved such that many traditional storefront retailers are now stepping into the ever-growing direct-sales arena.

"It's been a big success for us," says Sally Robb Haims, public relations manager with the Body Shop, a British-based international retailer that began offering in-home parties in 2001. The Body Shop at Home allows the company to reach out to more customers while complementing its existing store network and its e-commerce channel, according to its 2005 annual report.

A Million Wishes, launched in March by Jones Apparel Group, the parent company for Jones New York, Nine West, Enzo Angiolini and Anne Klein, has also begun showcasing jewelry, purses, belts and other accessories at in-home parties.

Even smaller local businesses - such as Gingko, a funky jewelry boutique on Professor Street in Tremont - are offering home parties.

"It's doing so well because it's a lot of moms," Gingko owner and jewelry designer Melanie Matty says of her loyal customers. "It's a lot easier bringing the products to them rather than hauling the kids to the store."

It's little wonder moms play a major role in the growth of home parties: Nobody needs a night out and a little shopping more than they do.

"When you're able to combine socializing and shopping," says Robb Haims, "it doesn't get any better than that."

Burnett is a free-lance writer

in Lakewood.

To reach this writer:

features@plaind.com.

The Virginian-Pilot via eClip 07/09/2006

Profile:

Mary Kay

Life after Ford: Lesson from Hazelwood, Mo.

By Jeremiah McWilliams, The Virginian-Pilot, Norfolk, Va.
McClatchy-Tribune Business News

Jul. 9--FLORISSANT, Mo. -- On a muggy night a few weeks ago, seven women gathered for a [Mary Kay] demonstration at Linda Whitley's home in this quiet St. Louis suburb. Creams and cosmetics perched on the wooden kitchen table.

"We're just going to have fun -- this is just girls playing makeup," Whitley told her friends before launching a pitch for the personal care company. "I'm not real good at this, but I'm real excited."

Ten months ago, Whitley was a toolmaker at Ford Motor Co.'s St. Louis Assembly Plant, helping to produce the once-popular Explorer. On this night, she was joined by four former co-workers from the 58-year-old plant, which shut down in March .

She segued smoothly from a plug for a hand moisturizer -- a peach-colored goo she once used in the plant -- to a discussion of how [Mary Kay] values women. But then, she couldn't resist a dig at her past employer.

"Those of you who worked at Ford, you know what corporate America is like -- it's all about profits," Whitley said. "They always say quality is

No. 1, and we've all seen what B.S. that is. It's all about the bottom line."

The demise of St. Louis Assembly is a story of pain and promise.

In Hazelwood , a city of about 26,000 in the northern suburbs of St. Louis, it's a tale of how the community is coping with the loss of one of its largest employers.

Nearly 1,000 miles away at Ford's Norfolk Assembly Plant, the Hazelwood experience could represent a road map for what lies ahead as 2,433 workers face a shutdown in two years.

Whitley epitomizes the mix of emotions -- bitterness, uncertainty and hope -- that Ford workers across the St. Louis area experience as they try to rebuild their lives . She was laid off in September after 29 years at St. Louis Assembly and officially retired April 1. When chairman and chief executive William Clay Ford Jr. appears on television, she wants to punch him.

"When you get laid off, it's like a physical attack," said Whitley, who struggled with depression for months after losing her job. "It's like someone threw you down and kicked you in the ribs."

In March, she attended a [Mary Kay] conference after years of minor involvement with the company, and her outlook changed. It "just made me realize there's something I can do," Whitley said. "If I can find something to give me some structure to meet my goals, that's what I need, and that's what [Mary Kay] is giving me."

Throughout the St. Louis area, other former Ford workers are seeking firm footing. Many are quick to tell of their experiences and offer words of comfort and advice to their Norfolk brethren.

Their message is reflected on a cloth scroll hanging in Whitley's kitchen: "God grant me the serenity to accept the things I cannot change, courage to change the things I can, and wisdom to know the difference."

Appendix K

Direct Sellers Discuss the FTC Proposed Rule on Business Opportunities

Direct Sellers Discuss the FTC Proposed Rule on Business Opportunities A Video Presentation

To view the video, click on the following link:

http://interface.audiovideoweb.com/lnk/ny60win16091/DSA_MasterLg_Prog.wmv/play.aspx

(8 minutes in duration)

Appendix L

DSA Response to Section K of the Notice of Proposed
Rulemaking: Request for Comments

DSA Response to Request for Comments

| FTC Questions | Location of Response |
|--|---|
| | |
| Definitions | |
| <p>1. Proposed section 437.1(d) would limit the definition of “business opportunity” to instances where a seller solicits a purchaser to enter into a new business (or new line or type of business). This limitation seeks to distinguish the sale of business opportunity ventures from the ordinary sale of goods and services. Is limiting the definition of “business opportunity” to solicitations to enter into a new business adequate to make this distinction? If not, what alternative limitation should the Commission consider? What would be the costs and benefits of each alternative?</p> | §II(A), §II(C), §III(A), §III(B), §III(C) |
| <p>2. Proposed section 437.1(d) contemplates that a business arrangement will constitute a “business opportunity” if the seller either promises business assistance or makes an earnings claim. Are both alternatives necessary? Are there business opportunities that offer assistance without making an earnings claim? Are there business opportunities that make earnings claims that do not offer assistance? Should the definition of “business opportunity” focus on the offer of assistance alone or on the making of earnings claims alone? What alternatives should the Commission consider? What would be the costs and benefits of each alternative?</p> | §II(A), §II(C), §II(C)(ii)(g), §III(C) |
| <p>3. Proposed section 437.1(d) contemplates that a business arrangement will constitute a “business opportunity” if the purchaser pays consideration to the seller, directly or indirectly through a third party. The proposed definition, however, does not contain a minimum payment threshold. The Commission believes that, in light of the limited compliance costs – far less than under the Franchise Rule – all business opportunity sellers (with the exception of franchisors under the Franchise Rule), should comply with the Rule. Further, the record shows that whatever threshold might be set forth in a Business Opportunity Rule, fraudulent business opportunity sellers will price their opportunities at an amount just under the threshold in order to avoid compliance. Nevertheless, should the Commission consider a monetary threshold and if so, why? At what level should the threshold be set? If so, how can the Commission ensure that fraudulent business opportunity sellers will not price their opportunities just under the threshold in order to avoid Rule coverage? What alternatives should the Commission consider? What would be the costs and benefits of each alternative?</p> | §III(A)(i), §III(B), §III(C) |
| <p>4. Proposed section 437.1(c) would define the term “business assistance,” setting forth five examples. Are each of these examples warranted? What other examples, if any, might better capture the nature of business assistance offered by business opportunity sellers? What would be the costs and benefits of each alternative?</p> | §II(C), §III(A), §III(B), §III(C) |
| <p>5. Proposed section 437.1(c) would include as an example of “business assistance” the tracking or paying, or purporting to track or pay, commissions or other compensation based upon the sale of goods or services or recruitment of other persons to sell goods or services. This example is intended to capture pyramid marketing programs that assist program participants in tracking commissions to be paid or by paying commissions to participants’ downstream. Does this example adequately capture pyramid schemes? Is it too broad, sweeping in business arrangements other than pyramids? If so, what alternative, if any, should the Commission consider to capture pyramid programs? What would be the costs and benefits of each alternative?</p> | §II(B), §II(C), §III(A)(ii) |
| <p>6. Proposed section 437.1(k) would make clear that the Rule applies to persons already in business who are seeking to enter into a new line of business. Do persons already in business need the protection of the proposed Rule? Does this provision impose unwarranted costs? Should the Commission consider alternatives regarding persons already in business who are either looking to purchase a new business opportunity or to expand their line of business? If so, what would be the costs and benefits of each alternative?</p> | §I(A), §I(B), §II(C)(i)-(iii) |

DSA Response to Request for Comments

| | |
|--|------------------------------|
| | |
| Timing Provision | |
| <p>7. Proposed section 437.2 contemplates that a seller must furnish a prospective purchaser with a disclosure document at least seven calendar days before the earlier of the time that the prospective purchaser: (1) signs any contract in connection with the business opportunity sale; or (2) makes a payment or provides other consideration to the seller, directly or indirectly through a third party, for the purchase or lease of goods or services. Is a seven calendar-day period warranted to enable prospective purchasers to investigate and make an informed investment decision? Is a seven calendar-day period necessary to enable prospective purchasers to review any earnings claims? Would a seven calendar-day review period impose unnecessary delay or excessive costs when the prospective purchaser is already in business? Should the review period be shortened to five or three days? What would be the costs and benefits of each alternative time period?</p> | §11(C)(ii)(a)-(d) |
| | |
| Liability | |
| <p>8. Proposed section 437.3 would provide that only a seller has the obligation to furnish a basic disclosure document. While a seller may hire brokers or others to arrange for sales, the seller ultimately has the obligation to ensure that disclosures are properly prepared and disseminated to prospective purchasers. Is it proper to limit liability for preparing and disseminating disclosure documents to the seller? Should other individuals or entities involved in a business opportunity sale also be liable for either failing to furnish disclosure documents or for the contents of an incomplete or inaccurate disclosure documents? What alternatives, if any, should the Commission consider? What would be the costs and benefits of each alternative?</p> | §11(C)(i) |
| | |
| The Disclosure Document | |
| <p>9. Proposed section 437.3(a) requires that disclosure documents be “in the form and using the language set forth in Appendix A.” Is this instruction sufficient to inform business opportunity sellers on how to prepare a basic disclosure document? Should the Commission revise the proposed Rule specifically to reference each of the required boilerplate disclosures? What alternatives, if any, should the Commission consider? What would be the costs and benefits of each alternative?</p> | §11(C)(ii)(d)-(f) |
| <p>10. The one-page disclosure document set forth in Appendix A is intended to provide prospective purchasers with material information with which to make an informed investment decision. Can the overall presentation of the information in the one-page disclosure document be improved? Are there specific sections that can be improved by simplifying the presentation to make it easier for prospective purchasers to understand? How could the presentation be improved? What would be the costs and benefits of each alternative?</p> | §11(C)(ii)(d)-(f) |
| <p>11. The one-page disclosure document set forth in Appendix A is intended to assist prospective purchasers by describing the nature of the information disclosed. For example, where a seller checks the “yes” box in connection with earnings claims, it clarifies for prospective purchasers that the seller or its representative is furnishing sales, income, or profit data. At the same time, the one-page disclosure document sets forth legal standards, summarizing for sellers and prospective purchasers the more lengthy disclosure obligations found in the text of the Rule. Accordingly, the Commission has tried to balance, as much as possible, the use of clear language readily understandable by prospective purchasers with the need for clear legal standards applicable to sellers. Has the Commission succeeded in striking the appropriate balance? Are there areas where the understandability of the one-page disclosure document may be improved, without sacrificing clear legal standards? Are there specific sections where the proposed language does not accurately convey the substance of the corresponding Rule provision?</p> <p>What improvements should the Commission consider to the language found in the one-page disclosure document? What would be the costs and benefits of each alternative?</p> | §11(C)(ii)(d), §11(C)(ii)(g) |

DSA Response to Request for Comments

| | |
|---|----------------------|
| <p>12. The disclosure document provides a space for the name of the “Seller.” In addition to any company or d/b/a name listed next to “Seller,” should “Seller” also include the principal officers’ names? Should the addition of such names depend on whether or not the seller is a d/b/a? What are the costs and benefits of including both the company and the principal officers’ names next to “Seller”? Should previous business opportunities offered by the seller’s principal officers be disclosed? What are the costs and benefits of including such information?</p> | <p>§11(C)(ii)(f)</p> |
| <p>13. Proposed section 437.3(a)(3) would require sellers to furnish certain litigation information. Specifically, the seller would disclose information about itself, as well as any affiliates and prior businesses, any of the seller’s officers, directors, sales managers (or other individuals who occupy a similar position or perform similar functions), and employees who are involved in business opportunity sales activities. The intent of this provision is to capture all individuals who function as officers, directors, or sales managers, even though they may not have a formal title. In addition, it also captures those employees who are involved in sales activities. Does this provision adequately capture the types of individuals whose litigation should be disclosed? Is the phrase “any individual who occupies a similar position or performs a function similar to an officer, director, or sales manager of the seller” adequate to identify those who act as or perform the functions of officers, directors, or sales managers? Similarly, is the language “employees who are involved in business opportunity sales activities” too broad? What alternative language, if any, should the Commission consider? What would be the costs and benefits of each alternative?</p> | <p>§11(C)(ii)(d)</p> |
| <p>14. Proposed section 437.3(a)(3) would limit the types of suits that must be disclosed to civil and criminal actions involving misrepresentation, fraud, securities law violations, or unfair or deceptive practices within 10 years immediately preceding the date that the business opportunity is offered. Are these types of actions sufficient to enable a prospective purchaser to assess the risk of purchasing an opportunity from the seller? Should the list be expanded to include bankruptcy? Should it be expanded to include suits against the seller for breach of contract? How often do business opportunity purchasers sue sellers for breach of contract, as opposed to misrepresentation or fraud? Is 10 years a sufficient period to track prior litigation? Is a 10-year period too long? If so, what alternative time period, if any, should the Commission consider? What would be the costs and benefits of each alternative?</p> | <p>§11(C)(ii)(d)</p> |
| <p>15. Proposed section 437.3(a)(3) would require a seller disclosing litigation to include the full caption of each action, including the names of the principal parties, case number, full name of the court, and the filing date. Should more detail be provided about legal actions? Should the business opportunity seller also have to provide information about any of the following topics: the final disposition of the action; the penalties imposed; the damages assessed; the terms of the settlement; or the terms of the order? What would be the costs and benefits of including such additional information?</p> | <p>§11(C)(ii)(d)</p> |

DSA Response to Request for Comments

| | |
|--|---------------------|
| <p>16. Proposed section 437.3(a)(4) would require a seller to disclose whether or not the seller has a cancellation or refund policy. In addition, proposed section 437.3(a)(5) would require the seller to state the number of purchasers of the business opportunity during the two years prior to the date of the disclosure and the number of cancellation and refund requests submitted by prior purchasers during the same period. The purpose of this provision is to assist the prospective purchaser in assessing the viability of the offer and the likelihood of the seller's post-sale performance. The focus on cancellations and refunds assumes that a seller would be better able to disclose information about such requests that it receives than information about the current status of prior purchasers. Is this assumption correct? To what extent do business opportunity sellers track the current status of prior purchasers? Is cancellation or refund request information relevant in a business opportunity sale? Does such information correctly imply dissatisfaction or problems within a business opportunity system?</p> <p>Would such a disclosure requirement actually discourage sellers from offering cancellations or refunds? What alternatives, if any, should the Commission consider? What would be the costs and benefits of each alternative?</p> | <p>§1(C)(ii)(e)</p> |
| <p>17. Proposed section 437.3(a)(6) would require each seller to disclose the name, city and state, and telephone number for at least 10 prior purchasers nearest to the prospective purchaser's location. The Commission believes the disclosure of this information is critical to enable a prospective business opportunity purchaser to verify the seller's claims and to conduct a due diligence investigation of the offering. Is this information proprietary for the seller? If so, do the benefits of such disclosure to prospective purchasers outweigh the costs to sellers? Are there other ways to identify prior purchasers? What alternatives, if any, should the Commission consider? What would be the costs and benefits of each alternative?</p> | <p>§1(C)(ii)(f)</p> |
| <p>18. As an alternative, proposed section 437.3(a)(6) would enable a seller to furnish prospective purchasers with a national list of prior purchasers. Is this a viable option? Would sellers be inclined to publish a single national list rather than individualized lists of purchasers "nearest to the prospective purchaser's location?" Under what circumstances should the Rule permit a seller to post a national list of purchasers on its website? What protections should be put in place to limit access to the list? What protections might be sufficient to prevent those who merely want to sell fraudulent business opportunities from accessing such a list? What other options, if any, should the Commission consider? Would these options enable the seller to select only those prior purchasers who are successful or who otherwise would give a favorable report on the seller? What would be the costs and benefits of each alternative?</p> | <p>§1(C)(ii)(f)</p> |
| <p>19. Proposed section 437.3(b) would require the disclosure of contact information, raising privacy concerns. Accordingly, the Commission proposes that sellers include in the references section of the disclosure document the following: "If you buy a business opportunity from the seller, your contact information can be disclosed in the future to other buyers." Are there alternative methods that would protect prior purchasers' privacy? Should the Commission consider an opt-out provision, enabling purchasers to decline having their contact information listed in a disclosure document? Would sellers likely exploit an opt-out provision by inducing purchasers to opt out, thereby avoiding the obligation to disclose prior purchasers as references? Would sellers use an opt-out provision to create, in effect, a self-serving list of successful purchasers or shills? Are there alternative methods employed by the states that the Commission should consider?</p> | <p>§1(C)(ii)(f)</p> |

DSA Response to Request for Comments

| | |
|--|---------------------------------|
| <p>20. Once the Rule becomes effective, sellers must disclose contact information for prior purchasers. However, individuals who have purchased a business opportunity before the Rule becomes effective probably will have received no notice that their contact information can be disclosed to other purchasers in the future. How should the Commission balance the goals of disclosing prior purchasers as references with the fact that, at least initially, some prior purchasers will not have received any privacy notice? Should the Commission phase in the use of references? For example, should the seller update its reference list on a monthly basis drawing only from those purchasers who have received a privacy notice? Is a monthly updating requirement feasible? What alternative updating requirement should the Commission consider? Would a monthly updating requirement disadvantage those purchasers who buy a business opportunity immediately after the Rule goes into effect, when no or few prior purchasers will have received the required privacy notice? What alternatives should the Commission consider? What would be the costs and benefits of each alternative?</p> | <p>§II(C)(ii)(f)</p> |
| <p>21. Are there other disclosures that should be included in the disclosure document? Specifically, should any proposed initial purchaser price of the business opportunity and/or payments to be sent to third parties be listed on the disclosure document? Why or why not? What would be the costs and benefits of including such information?</p> | <p>§II(C)(i), §II(C)(ii)(a)</p> |
| | |
| <p>Earnings Claims</p> | |
| <p>22. Proposed section 437.4(a)(4) would set forth the required content of an earnings claims statement. It includes the name of the person making the claim, the date of the claim, the claim, the beginning and ending dates when the represented earnings were achieved, the number and percentage of all purchasers during the stated time frame who achieved at least the stated level of earnings, and a description of any characteristics of the purchasers who achieved the represented earnings that may be materially different from the characteristics of the prospective purchasers being offered the business opportunity. Is this information sufficient to enable a prospective purchaser to assess the validity of an earnings claim? What other substantiation, if any, should be required? Should a seller be able to make an earnings claim if it does not have complete and accurate information on the number and percentage of prior purchasers who have achieved the represented level of earnings? If so, under what conditions should such earnings claims be permitted? What alternatives, if any, should the Commission consider? What would be the costs and benefits of each alternative?</p> | <p>§II(C)(ii)(g)</p> |
| <p>23. Proposed section 437.4(c) would address the dissemination of industry financial, earnings, or performance information. Specifically, a seller would be barred from using such information unless the seller has written substantiation demonstrating that the information reflects the typical or ordinary financial performance experience of purchasers of the business opportunity being offered for sale. Should a seller be required to disclose the number and percentage of its purchasers that have achieved at least the same level of performance as the industry figures? Would number and percentage information be sufficient to enable a prospective purchaser to assess the applicability of industry information to the opportunity being offered? Do business opportunity sellers collect performance data from purchasers? Is such information readily available? What other alternatives, if any, should the Commission consider? What would be the costs and benefits of each alternative?</p> | <p>§II(D)(ii)(g)</p> |
| | |
| <p>Prohibited Acts and Practices</p> | |
| <p>24. Proposed section 437.5 would set forth a number of prohibited acts or practices. Is the proposed list complete? Are there any other practices common among business opportunity sellers that should be prohibited? Are any of the proposed prohibitions unnecessary? What would be the costs and benefits of each proposed prohibition? What alternatives, if any, should the Commission consider? What would be the costs and benefits of each alternative?</p> | <p>§II(B), §III(A)-(E)</p> |

DSA Response to Request for Comments

| | |
|--|---------------------------------|
| <p>25. Proposed section 437.5 would prohibit sellers from misrepresenting the business opportunity, directly or through third parties. Accordingly, a business opportunity could be held liable for misrepresentations made about the business opportunity through third parties, such as a locator or broker. Should third parties involved in the business opportunity sales process be held liable for misrepresenting the seller's disclosures? Proposed section 437.5 also does not address when a third party – such as a shill – makes his or her own misrepresentations outside of the disclosure document. The Commission believes that third parties can be held liable for their own misrepresentations under Section 5 of the FTC Act. Is Section 5 of the FTC Act sufficient to address independent misrepresentations made outside of a disclosure document by such third parties? What alternatives, if any, should the Commission consider? What would be the costs and benefits of each alternative?</p> | <p>§III(A)-(E)(i)</p> |
| | |
| <p>Federal and State Relations</p> | |
| <p>26. The proposed Rule would prohibit business opportunity sellers from adding any other information to the required disclosures, including information required by state law. This approach is different from the Franchise Rule approach, which enables franchisors to include additional materials in a disclosure document that are required or permitted by state law. Because the proposed disclosure document comprises a single page (and any attachments), sellers can easily attach the federal disclosure document to any disclosure document required under state law, without imposing significant costs or burdens. In light of the vastly different laws governing business opportunities on the state level, this approach will also preserve the uniformity of federal disclosure documents. Is this approach proper? How can the Commission best accommodate divergent state business opportunity approaches? What alternatives, if any, should the Commission consider? What would be the costs and benefits of each alternative?</p> | <p>§II(A), Appendix J</p> |
| | |
| <p>Record Retention</p> | |
| <p>27. Proposed section 437.6 would require that records be kept for “each oral or written cancellation or refund request received from a purchaser.” How should oral cancellation or refund requests be kept? Is there certain information that should be preserved in a written form, such as name, address, amount of request, date, and resolution of the request? What would be the costs and benefits of requiring such record retention obligations?</p> | <p>§II(C)(i), §II(C)(ii)(d)</p> |