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An Analysis of Direct Sales Business in European Market-A Case Study of Tshi Company

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Abstract: Direct sales is a business model widely adopted in the sectors of health products, cosmetics, and etc. Many companies adopting this business model are seeking international growth, and multiple types of barriers could emerge during this process. This paper carries out a classic SWOT analysis to understand the situations faced by a typical direct sales company marketing complementary food with TCM elements to the European market, in the hope of providing reference for business of similar qualities and other researchers interested in this field.

Keywords: Direct Sales; Complementary Food; SWOT

1. Introduction of the Direct Sales Business

1.1 Definition

The Direct Sales is the marketing of goods and services directly to the consumers, by a contact person, generally at the residence of the consumer or the contact person, at their place of work or any place other than a permanent commercial establishment.

The direct sales is characterized by an explanation or a demonstration of products and services offered by the salesmen, focusing on the technicality of the product or its innovative character. The presentation of the product is a service preliminary to the decision of purchase of the consumers.

A direct salesman generally works near his/her residence. The employment can be full-time, part-time or simply a complement of income obtained parallel to a principal activity.

There are many manners of organizing a company of direct sales, including through personal contact, the individual sale, or sales in meetings.

1.2 Multilevel sales

The multilevel sale, or under the names “marketing by networks”, “structured marketing” or “direct sales on multiple levels”, is a significant component of the industry of the direct sales. It is a method of sale which, since many years, has proven its effectiveness and profitability by allowing the diffusion of products and services directly to consumers and remunerating independent distributors.

The multilevel sale acts primarily as a program where distributors receive remuneration in two ways: first, a distributor receives an income for his/her personal sales of goods and services; second, s/he perceives commissions for the sales of his/her team. The multilevel sale thus makes it possible for the distributor to develop an independent business, at the same time by selling goods and services to the consumers and by animating a network of distributors.

1.3 Advantages of the direct sales

The direct sales offers significant advantages, on the one hand with the people who wish to secure a channel of income and an opportunity developing their own business; on the other hand for consumers who like to experience a different way of consumption other than stores and malls, where salespeople explain the features of the product, conduct demonstrations, and deliver products to the household while providing satisfactory assurance.

Table 1: Advantages of direct sales

<u>For consumers</u>	<u>For the salesmen</u>
<ul style="list-style-type: none"> • Possibility of trying the products • Right of retraction and time for consideration • Demonstration and explanations adapted to the products offered in a convivial environment • Personalized delivery to the door • Personal and privileged contact with the salesman • Guarantee and after-sales service • Flexibility of schedule of purchase 	<ul style="list-style-type: none"> • Complementary profit appropriateness • Advisability of developing their own business with low risk and little cost • Existing business pattern provided by the company • Flexible choice of part-time or full-time • Flexible working hours • A vast portfolio available • Social contacts and personal recognition

In addition, direct sales provides a distribution channel for companies that promote innovative and unique products that are hard to find in traditional retail stores. Such as, companies that cannot afford the massive publicity and promotion necessary to ensure their presence on store shelves. Direct sales optimizes communication infrastructure and provides consumers with a practical source of quality products.

1.4 Direct Sales in Europe

Over the last 10 years, the direct sales developed quickly in Europe, with the turnover and sales force increasing rapidly. In France, members of direct sales mainly concentrate in four fields: communications, fashion and beauty, food and household products. Tshi France, the case studied in this paper, is eager to seize this opportunity.

2. Introduction of the Target Company

2.1 General information

Tshi France is a fully-owned affiliate of Tshi Group, a Chinese company specialized in the supplementary food sector. Tshi runs business worldwide through direct sales. Founded about 20 years ago and located in Paris, Tshi France has an office of less than 200 square meters. As a branch office of Tshi Group in Paris, Tshi France has only 26 products, mainly healthy foods, such as tea, calcium, digestants, etc. that are favoured by western countries.

As a direct sales company, Tshi claims to offer “Two Keys”:

- The first to unlock the door to Health;

- The other to Wealth.

By developing, manufacturing and selling quality products, Tshi offers the key to unlock the door to health. By compensation allocated through the direct sales system, Tshi provides the key to wealth. When combined, these two keys offer customers the opportunity to achieve their optimum results on both health and wealth.

2.2 Marketing Objectives & Strategies

The Tshi Group would market its products based on the theory of Chinese traditional medicine. Its way of distribution, the multilevel direct sales, ensures the competitive position and reinforces the success of the Group.

In the European market, there is a strong competition in the market among both supplementary food products and companies of direct sales. To efficiently introduce its products to French consumers and to maintain its network of sales are the principal challenges for Tshi France.

This paper would first introduce the marketing strategy of the Tshi Group, which is direct sales. A SWOT analysis follows to establish the action plan for Tshi France to exploit the European market and to increase the sales turnover.

3. Portfolio & Business Plan

The biotech market is an emerging market today. Due to the popularity of fast food, pollution, and work stresses, more and more people are under a state of sub-health, and they are eagerly seeking solutions.

The mission of Tshi is to promote the Chinese traditional culture of health care. The Tshi group is devoted to the development of biotech products to improve human health.

3.1 Tshi portfolio

Tshi has a portfolio of supplementary food, which are greatly inspired by TCM and the Chinese tradition of health care. The products are manufactured on the basis of traditional science. A general list of the major products are provided below.

Table 2: Portfolio of Tshi Group

Product	Features
Spirulina	Extracted from algae plant Improves the human gastrointestinal function
Comliness	Extracted from evening primrose Improves women's hormonal imbalances and keeps them active and healthy
Zinc Capsules	Consisted of zinc lactate, glucose and protein power
Beneficial Capsules	Helps people with anoxic conditions No substitution of medicine

3.2 Business plan: interactive co-operation and multilevel sale

The Group Tshi offers consumers two keys: the key to health, thanks to the products; and the key of wealth, thanks to the Business Plan. Tshi sells all its products through multilevel sale. The distributors try the products and distribute them using the formations and the resources of Tshi and through their professional introduction and demonstration. All the expenditures on intermediate agents and publicity are saved, for instance, allowances for distributors. In this way the company and its distributors cooperate interactively. Thanks to its international logistic network, Tshi allows each distributor to operate with one number of distributor while crossing the world.

Distributors of Tshi get income from six sources:

1. A benefit detailed on products sold to people who are not members.
2. A direct allowance.
3. Indirect allowance from the whole team.
4. A team leader receives a certain percentage of allowance from the team members' sales.
5. Honorary allowances based on the total sales turnover of the company.
6. Special awards from for distributors with extraordinary sales performance, including luxury cars and international travel to holiday resorts.

4. SWOT Analysis

An analysis SWOT of Tshi is developed, for the purpose of facilitating a marketing action plan.

4.1 Strength

◆ Original Products

Tshi develops its supplementary food products on the basis traditional Chinese medicine (hereafter referred to as “TCM”) theories, hence it is very different from other products of the same type developed and marketed in western markets. Meanwhile, the ingredients come from the natural plants and animals, and are refined using modern and advanced bioengineering. As a result, the products of Tshi are more effective compared to the other products featuring TCM.

◆ Good Quality

Tshi is qualified for ISO9001. Part of its products has reached the quality standards of FDA in the US. It was awarded by the Academy of the Nature of the United Nations “The Best Ecological Safety Award”.

Through comparative tests and other scientific means, it is proven that the ingredients of Tshi products are more effective than many peer products, including products of some established brands.

◆ An Effective Staff Impassioned with TCM

Tshi France provides its distributors the services of marketing, trades, logistics, accounting and documentation. All the staff come from China. Equipped with knowledge on TCM, the staff provide very relevant and convincing product demonstrations. For example, one of the constants is a TCM doctor who worked with Tshi China for 4 years before being dispatched to France. With her rich experience in TCM practices and the Tshi products, she is able to illustrate the products in a very professional manner.

◆ Efficient Logistics

The Tshi Group places a logistic center in Barcelona, Spain, and orders are generally delivered within 2 or 3 days. Therefore, Tshi France does not need to keep a big inventory, which saves a great sum of storage costs.

◆ Sound brand image among foreign residents

France has a large population who are originally from Africa, Asia and Eastern Europe. Thanks to its long years of excellent operations, the Tshi group has a satisfying brand image in Asia, Africa, Russia and etc. Tshi France, as a subsidiary of the Tshi Group, profits greatly from this advantage. Some residents from Africa, Asia and Eastern Europe are referred by their family to Tshi. Currently, they are both the main force of distributors and the major consumers of Tshi France.

4.2 Weakness

◆ Insufficient communication between Tshi France and the Group

As of writing of this paper, Tshi France has not yet established sufficient processes to guide the operational activities. Tshi has not shared its documentation with its French subsidiary, and there is not any regular communication between the two. Meanwhile, it is difficult and time-consuming for Tshi France to prepare all the documents needed by itself as the specialized knowledge of TCM is quite complicated and there is a shortage of hands.

◆ Difficulty in Hiring Specialists with Double Competences: Medical Knowledge and Bilingual Skills

Because of the special features of its business, Tshi France needs specialists who has a good master of both modern western medicine and TCM. Meanwhile, the specialists need to speak French for communication with distributors and Chinese for internal communication. It is difficult to acquire such personnel.

◆ Irregular Organization of Conferences

Due to the lack of specialists, conferences are not held regularly as needed to train the staff, and consumers are badly informed as a result. It has a serious impact on sales, as it is impossible to sell medical machines and some other products without necessary information.

◆ Lack of local distributors in France

Currently, the majority of Tshi France's distributors are originally from countries other than France. As a result, Tshi France makes very slow progress in the mainstream community.

4.3 Opportunities

◆ A Strong and Growing Biotech Food Market

Biotech food is a high-end market. In modern society, sub-health is a common issue, especially among the working class in the western world, who want and can afford to spend money on health products. Complementary foods meet this need well. This is a market with huge potential.

◆ Booming Chinese Culture in France

China and France have a close and friendly relation, and there are frequent Franco-Chinese exchanges which open the door to Chinese culture for the French. The TCM will undoubtedly be introduced and promoted in France. In fact, there are already French people studying TCM in China and an Association of TCM has been established in France.

4.4 Threats

◆ Strict Regulations in France

The 1st private bill concerning supplementary food was adopted by the European Parliament on May 8, 2000. By now, the using of plants is very restrictive in France: only 34 plants are recognized against more than 300 in Belgium. It is thus more difficult to convince French people to purchase supplementary food comparing with other European countries.

◆ Few Products Available in France

Due to barriers to obtain the import licence, there are only 27 products of Tshi currently available in France, which are principal products of Tshi but with a weak profit margin.

◆ Fierce Competition in the Supplementary Food Market

In France, there are various brands of supplements. Some brands are sold in supermarkets and promoted intensively through media, offering a rich variety for consumers to choose from. Tshi mainly promotes itself through word-of-mouth, and there is not any media promotion for Tshi France's products.

◆ Competition among Companies of Direct Sales

Despite the fact that companies of sale direct may not operate in the same sector, distributors can nevertheless work for several companies of direct sales at the same time. Familiar with system of direct sales and already in possession of a network of sales, distributors would work for several companies to superimposed benefits. As a result, distributors do not have enough time and energy and they make more efforts for companies with more interesting products and more favourable business plans. In order to maintain distribution networks, direct sales companies strive to develop innovative products, offer better premiums, and organize frequent meetings for training.

◆ Social Security

France provides a generous social security package for its people. The state pays the larger portion and people the smaller portion of the costs of seeing a doctor or buying medicine. Therefore, the French would be reluctant to spend money on supplementary food products, which are not covered by social security. What's more, supplementary food functions slowly while drugs show their effects clearly and efficiently. In consequence, French people are slow in purchasing supplementary food, especially those from abroad.

5. Action Plan of Tshi France to Animate the European Market

Based on the above analysis, measures are recommended to Tshi France to conquer the European market.

- ◆ To work on bilingual documentations help consumers know and understand Tshi products
- ◆ To recruit specialists from China and organize conferences regularly
- ◆ To regularly invite lecturers and the Chinese experts of TCM to introduce the science of TCM to the local community
- ◆ To support certain distributors to be team leaders so as to recruit more members
- ◆ To expand publicity in different French provinces and European countries.

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