



# The misplaced controversy about internal consumption: Not just a direct selling phenomenon

Victoria L. Crittenden <sup>a,\*</sup>, Gerald Albaum <sup>b</sup>

<sup>a</sup> Babson College, 231 Forest St., Wellesley, MA 02457, U.S.A.

<sup>b</sup> Anderson School of Management, University of New Mexico, Albuquerque, NM 87131, U.S.A.

## KEYWORDS

Internal consumption;  
Direct selling;  
Multilevel marketing;  
Retailing;  
Inventory loading;  
Employee discounts

**Abstract** Internal consumption in the direct selling industry has been at the heart of many debates over the past couple of decades. In this article, we contend that internal consumption is a widespread practice at all levels of the distribution channel and not something limited to the direct selling or the multilevel marketing (MLM) retail arena. While government regulators in some countries attempt to use this practice in MLM as prima facie evidence of illegal pyramiding, the results presented here provide evidence of the widespread use of internal consumption in all aspects of retailing. Thus, to attribute internal consumption as a negative aspect solely within the direct selling marketplace shows a misplaced understanding with regard to personal use, discounts, and company recruiting efforts. At the same time, however, our research shows that discounted purchasing of product for personal use likely brings little value to the company since it does not appear to result in increased job satisfaction or organizational loyalty from either the affected employees or the customer base.

© 2015 Kelley School of Business, Indiana University. Published by Elsevier Inc. All rights reserved.

## 1. A controversy. . .yet a widespread phenomenon

Whether employed by a firm or independent contractors, personal selling has experienced tremendous growth over the past 2 decades and will continue to

do so (Rapp, 2009). A career in sales can offer considerable opportunities for an assiduous salesperson. Unfortunately, one of the predominant marketplaces for personal selling—the world of direct sales, including the form known as multilevel marketing (MLM)—has faced considerable controversy over the past few years.

A major area of controversy has been around the phenomenon referred to as the internal consumption practice—a common practice among the direct selling sales force. Basically, internal consumption

\* Corresponding author

E-mail addresses: [vcrittenden@babson.edu](mailto:vcrittenden@babson.edu) (V.L. Crittenden), [albaum@unm.edu](mailto:albaum@unm.edu) (G. Albaum)

is when sales force members purchase the company's product for personal use. In doing so, the salesperson receives a discount off the purchase price. We contend here that the controversy about internal consumption in direct selling is misplaced for two major reasons: (1) internal consumption occurs in multiple business-to-consumer domains, not just in the direct selling industry; and (2) regardless of the retail channel, the rationale for offering internal consumption opportunities as an employee benefit does not provide the suspected payback as a motivator. As such, whether labeled internal consumption or employee discounts, the phenomenon does not have a major impact on sales people, other employees, or consumers.

## 2. The direct selling marketplace

Direct selling is a non-store distribution method in which products are offered directly to the consumer via person-to-person or party plan selling. Recent estimates suggest worldwide sales at direct selling companies were in excess of US \$178.5 billion in 2013, with a sales force estimated at 96 million independent contractors worldwide. In the United States, sales in 2013 were \$32.7 billion and sales

people numbered 16 million ([World Federation of Direct Selling Associations, 2014a](#)). Sales in the European Union countries in 2013 were reported to be €18.7 billion and the number of sales people was 5.2 million ([European Direct Selling Association, n.d.](#)). Clearly, direct selling is a major aspect of business-to-consumer (B2C) retailing.

A profile of the direct selling sales force shows the following: 80% are female, approximately 90% operate their business part time, about one-half have college degrees, financial compensation is commission based, taxes and expenses are paid by the independent operator, 80% of the sales force has been with their company for more than 1 year, and many view the direct selling as a source of empowerment ([Direct Selling Association, 2015](#)). [Table 1](#) presents an overview of seven types of sales people in the direct selling industry based on individual motivations for joining and staying affiliated with the company. Products sold in the direct selling context are diverse, with leading product sales categories varying region to region and country to country. [Table 2](#) provides examples of products offered by direct sellers.

Direct selling is often confused with multilevel marketing; herein lies a significant problem—or one

**Table 1. Types of direct selling sales people\***

- **Wholesale or Discount Buyer:** These individuals technically are sales people in that they sign up as sales people but in reality do so to buy the company's products at the wholesale or discount price accorded members of the sales force. They do not sell and they do not recruit.
- **Short Term/Specific Objectives:** These are individuals who join a company to earn extra money for a specific objective. Examples of these people are women who join many of the companies one month before Christmas to earn extra income to spend on their own families' Christmas presents. Another example is when an individual joins a firm to earn enough money to replace a worn out appliance, such as a refrigerator, or to buy a television set.
- **Quality Of Life Improvement:** These are people whose family income is inadequate to give them the quality of life they want, whether both husband and wife work outside the home or one income is inadequate and the other must stay at home for the children. One of them—usually the woman—will therefore work a few hours per week with a company, but she or he will do it all year long to earn enough money to improve the quality of their lives financially.
- **Careerists:** These are the people who work full time at their direct sales business. They are micro-entrepreneurs with their own small businesses, in effect in partnership with the direct selling firms.
- **Social Contacts:** In some countries, women who have become isolated in the home because of a diminution of the number of nuclear families join direct sales firms for the social contact direct selling provides, both with their customers and with their colleagues.
- **Recognition:** In some countries, people, especially women, join firms for the treatment of respect and the recognition they earn for their efforts.
- **Belief in the Products:** Some people join direct sales companies because they believe so much in the attributes of the products that they want to share them with their friends, neighbors, and the public at large.

\* Source: [World Federation of Direct Selling Associations \(2014b\)](#)

Download English Version:

<https://daneshyari.com/en/article/1013967>

Download Persian Version:

<https://daneshyari.com/article/1013967>

[Daneshyari.com](https://daneshyari.com)