



# **Exploring Direct Sale**

– In Relation to Chinese Culture

**Kristianstad University**

**The Department of Business Studies**

FEC 685 Bachelor Dissertation

International Business Program

December 2004

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## Abstract

The dissertation aims to identify and investigate factors involved in direct sale in relation to Chinese culture. Direct sale is one form of direct marketing, which can include door-to-door, office-to-office, home party selling, etc. For a salesperson to be able to do business with people from various cultures, he/she needs to understand the differences in their values and in their consumer needs. Cultural values have implications for marketing communication and direct selling activities.

After a literature review of the two areas, direct sale and Chinese culture a theoretical model was developed. This model will be helpful for companies when entering the Chinese market through direct sale. The model consists of twelve factors involved in direct sale; communication, commitment, trust, collective, friendship, empathy, respect, conflict avoidance, loyalty, functionality, behaviour, and home party. The aim is to show how important each of the factors is for direct selling in China. From the interpretations of the research review we came to the conclusion that all factors are considered to be of importance in relation to Chinese culture.

In order to test the model we conducted a survey. Our population consisted of Chinese exchange students at Kristianstad University in Sweden. The result of the survey became the base of a new model. The new model showed that all factors were of importance but with different degrees. In order to see if our model might be useful in real life we chose to include a case study of Oriflame. All the factors in our model supported Oriflame's strategy.

**Keywords:** *direct marketing, direct sale, culture*

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## APPENDIX

APPENDIX 1

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# Chapter 1

## Introduction

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*In the first chapter the background of the dissertation is described. The research problem and the research objective of the dissertation are discussed. Finally, research questions, definitions, limitations, and outline are presented.*

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### **1.1 Background**

Marketing is a shared interest among us, which is the reason why we chose to examine this area. We believe marketing will be more and more important for companies when trying to build strong relationships with their customers. Companies using direct marketing will not use any intermediary between its organisation and its customer; it is a one-to-one relationship. Direct marketing is defined as "...any form of marketing in which the seller communicates directly with possible customers, rather than shops or agents." (Adam, 1989, p.177). It aims to achieve an immediate quantifiable response and to build long-term relationship with their customers. Direct marketing often consists of interactive communication and has the advantage of being customised to match the need of specific target markets. Messages can be developed and adapted quickly to facilitate one-to-one relationships with customers (Assael, 1987).

Direct sale is one form of direct marketing; it can include door-to-door, office-to-office, home party selling, etc. It is an effective way for companies to build up customer relationships in new markets. A more precise definition has been proposed to refer direct sale as "...the marketing of consumer goods and services directly to consumers in their homes or the homes of friends, at their workplace and similar places away from shops, through explanation or demonstration of the goods or services by a salesperson, for the consumer's use or consumption" (Xardel, 1978, p.23).

One thing that can create a problem for a company entering a new market is the culture. As western culture differs greatly from the eastern culture companies wishing to enter the eastern market need to take this into account when they design their implementation strategies. For a marketer to be able to do business with people from various cultures, he/she needs to understand the differences in their values and in their consumer needs. Culture is defined as "...the customs and beliefs, art, way of life and social organisation of a particular country or group..." (Hornby, 2000, p.306). And it is considered to be the driving force behind human behaviour everywhere (Harris & Moran, 1999). Since marketing is based upon "...satisfying human needs and wants" (Kotler *et al.*, 2001, p.5) successful marketers need to become aware of these cultural differences and target their products and services accordingly.

China has long been a closed economy, prohibiting foreign companies to enter its market. Although the country has gradually changed its policy towards a more open economy, foreign companies still have many barriers to overcome. The Chinese government has forbidden direct marketing since 1988 (Bott, 1999); this form of marketing is believed to be harmful for the consumers. The Chinese government is concerned about criminal abuses in the system of independent distributor networks, with its door-to-door sale and motivational meetings. Criminals have used such activities to start secret societies, swindle, seek very high profits, and sell smuggled and fake goods. All this seriously harms the right of the consumer and it is considered to disrupt the normal economic order. As China now is member of the World Trade Organisation (WTO), it will be expected to provide a friendlier environment for foreign companies. When it comes to direct marketing, a government proposal to legalise direct sale is expected to be approved in December 2004 (Oriflame, 2003). This will create new possibilities for companies to enter the Chinese market through direct sale. But since this form of marketing is still unknown for many Chinese, companies cannot foresee the reactions from the customers.

From the western perspective direct sale is considered to be beneficial for the consumers. They can see, feel and try the products before making a purchase decision. An up to date example of a company using direct sale is Oriflame, which is a successful Swedish cosmetic company founded in 1967. We will in our dissertation use Oriflame as a case study to see how appropriate its direct sale strategy is for the Chinese market considering the culture.

Today Oriflame sell their products through an independent sales force, outside the traditional retail environment. The product range is targeted at the broadest customer segment in each market, and as such has a mass-market orientation. Oriflame is present in over 50 countries and is one of the market leaders in 30 countries. A sales force of more than 1.5 million independent sales consultants market a complete range of high quality skincare, fragrances and cosmetics. Oriflame has already established itself in 7 Asian countries and they are now planning to enter the Chinese market within the next few years (Oriflame, 2003).

## **1.2 Research problem**

One of the main barriers a company is facing when entering the Chinese market are cultural differences. The Chinese culture is different from the rest of the world, which may cause different responses to its implementation strategy. Another important issue to consider is laws and regulations. Direct sale has been forbidden in China since 1988 but a discussion is now taking place and the law is expected to be changed in December 2004. This will create new possibilities for companies to enter the Chinese market through direct sale. For the western consumers direct sale is a well-known concept. However, for the Chinese consumers it is a relatively new concept, where the relationship between the buyer and seller differs from traditional selling (in shops). Since the Chinese culture differs greatly from the western culture, it is hard to predict how Chinese consumers will perceive direct sale. The culture will become one of the main problems when introducing direct sale in China.

### **1.3 Research objective**

To identify and investigate factors involved in direct sale and put them in relation to Chinese culture.

### **1.4 Research questions**

1. What important factors are involved in direct sale when building buyer and seller relationships?
2. What cultural aspects should a company consider when entering China?
3. How important are the identified factors involved in direct sale when implementing direct sale in China?
4. How appropriate is Oriflame's direct sale strategy for the Chinese market considering the culture?

### **1.5 Definitions**

#### *Direct marketing*

Any form of marketing in which the seller communicates directly with possible customers, rather than through shops or agents.

#### *Direct sale*

The marketing of consumer goods and services directly to consumers in their homes or the homes of friends, at their workplace and similar places away from shops, through explanation or demonstration of the goods or services by a salesperson, for the consumer's use or consumption.

#### *Culture*

The customs and beliefs, art, way of life and social organisation of a particular country or group.

### **1.6 Limitations**

Companies face many types of barriers when entering China but we have chosen to limit ourselves to the cultural aspects. We believe this is the most important issue when using a direct sale strategy, since you interact locally with your customers. In the field of direct marketing we will focus on the characteristics of direct sale and its relationship building process. In the fields

of Chinese culture we will focus on the characteristics and issues related to the relationship building process. Due to time limit of the Chinese students we have chosen to use a quantitative research method through a survey, instead of a qualitative research method. Due to distance barrier we have limited the survey to involve only the Chinese exchange students at Kristianstad University. This might lead to a misrepresentation of the population in China but due to the size of our study this is beyond our control.

### **1.7 Outline**

The dissertation has the following outline:

Chapter 1: In the first chapter the background of the dissertation is described.

Research problem, research objective, research questions, limitations and definitions are presented.

Chapter 2: Choice of methodology is presented, followed by a discussion about the data collection and the scientific approach.

Chapter 3: The theoretical framework is presented. First, we investigated what researchers have written about direct marketing and direct sale. Second, a review of literature relating to the Chinese culture is presented.

Chapter 4: Chinese culture facing direct sale is first presented, followed by a presentation of the theoretical model. The twelve main questions are thereafter developed.

Chapter 5: The empirical method is presented. We discuss the research strategy, sample, and limitations followed by an analysis of the questionnaire and response rate. Finally, a discussion about reliability, validity, criticism of methodology and generalisability is presented.

Chapter 6: The survey is analysed. The results of the questionnaire are presented and the main questions are evaluated.

Chapter 7: A case study of Oriflame is presented. We started with an introduction and a SWOT-analysis of the company then continued with a comparison of direct selling versus traditional selling. At last an analysis of the applicability of our model as well as conclusion are presented.

Chapter 8: The dissertation is summarised and the applicability of the model is discussed. Modifications, future research, practical implications, and discussion and criticism are also presented.

## Chapter 2

### Method

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*A presentation of the choice of methodology is presented, followed by a discussion about the data collection and a description of the scientific approach.*

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#### **2.1 Choice of Methodology**

Our objective was to identify and investigate factors involved in direct sale and put them in relation to Chinese culture. We started by studying previous research materials in related areas. We studied the fields of Chinese culture and theories connected to direct sale. The information collected was used to examine if a direct sale strategy could be applicable when entering China. Due to the banning of direct sale no one yet knows how the Chinese culture will accept a direct sale strategy.

The purpose was consequently to identify and analyse factors involved in direct sale to see if they can interact with the Chinese culture. To put more perspective on the subject we have chosen to make a case study of Oriflame, which is planning to enter the Chinese market through a direct sale strategy during 2006 (Oriflame, 2003).

We chose to adapt a deductive approach in this dissertation, which means that we went from theory to data (Saunders *et al.*, 2003). We started by doing a literature review of the two subjects, direct sale and Chinese culture, and then we selected emphasised factors involved in direct sale in order to create a theoretical model. The aim of the model was to show how important each of the factors is for direct selling in China. We used this model to set up a number of main questions (Chapter 4) and tested them by using a survey.

## **2.2 Data Collection**

### *2.2.1 Secondary Data*

Direct sale is a part of direct marketing and has existed as a marketing strategy for hundreds of years. For this reason there exists many research materials on the subject and we chose to conduct a literature review to learn more about the subject. Also the Chinese culture is a well-researched area and it demanded a literature review to get familiar with the cultural aspects. The law to ban direct sale in China is about to change and one company that is waiting to enter the growing Chinese market is Oriflame, which we have chosen to use as a case study.

When we studied previous research in the field of direct marketing we focused on the characteristics of direct sale. In the fields of Chinese culture we focused on the characteristics and issues related to the relationship building process. These are the areas that correspond in the analysis of our objective: to identify and investigate factors involved in direct sale and put them in relation to Chinese culture.

### *2.2.2 Primary Data*

We conducted a survey by using a questionnaire answered by a number of Chinese citizens who all had their residence in China. The aim with the research was to test if our theoretical model was reliable and if it might be helpful when implementing a direct sale strategy in China. The questions we used in the questionnaire were linked to our main questions (Chapter 4), which in turn were based on our theoretical model. The subquestions were created in order to answer the main questions. After the participants had filled out the questionnaires they were returned to us. Our sample group consisted of a number of Chinese exchange students at Kristianstad University. To be sure of getting a high response rate we delivered the questionnaires in person.

### **2.3 Scientific Approach**

We conducted our research as an independent and objective analysis and constantly tried not to affect or to be affected by the participants of the research. This is all reflecting the principles of positivism, which is the philosophy we tried to adopt throughout the dissertation (Saunders *et al.*, 2003).

When we conducted the research we tried to stay as neutral as possible so that the participants should not be influenced by our presence. We also tried not to let our expectations affect the result and analysis of our research. Our research is of a deductive approach, which is often related to a quantitative research using a variety of tools and techniques to understand customer, business and markets, to make forecast and predictions, and to assist in decision making (Bannock *et al.*, 2002). It is also characterised in the way that concepts need to be operationalised so that it is possible to measure facts in a quantitative way (Saunders *et al.*, 2003). A quantitative market research is a way to collect, analyse and interpret data in a countable way and are often used for model-building research (Bannock *et al.*, 2002). We asked closed questions to take away all possibilities to argue the answers.

We have also chosen to include a case study of Oriflame, on which we are going to test our model. Oriflame is a company that is about to implement a direct sale strategy on the Chinese market.

Moreover we have used an explanatory approach when writing this study. We studied a problem in order to explain the relationship between two variables, culture and direct sale. The dissertation is also of a cross-sectional nature, which refers to a particular phenomenon at a particular time and often adopts the survey strategy (Saunders *et al.*, 2003).

# Chapter 3

## Literature Review

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*In this chapter the theoretical framework is examined. First, an introduction of direct marketing and direct sale is presented, followed by a research review of the area. Focus is on specific characteristics of direct sale in the relationship building process. Second, a review of literature relating to the Chinese culture is presented.*

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### **3.1 Direct Marketing**

In the last few decades, direct marketing has become an important field of marketing. Direct marketing is the use of direct communication channels to reach and deliver goods and services to customers without using middlemen. Direct marketing is an interactive system, which means that there is a two-way communication between an organisation and its customers. The customers can, for example, communicate through inserts in magazines, postal reply cards or by telephone. Some commonly known types of direct marketing used by companies are telemarketing, direct mail and direct response. The results of direct marketing promotion are generally easier measurable than in traditional marketing. This is because the costs of the promotion and the actual response can be measured at an individual level ([http://...1](#)).

The main objective with direct marketing is to build long-term relationships with customers ([http://...2](#)). Direct marketing is a fast way for a company to communicate with its consumers. There are many benefits with direct marketing. It saves time and introduces consumers to a larger selection of merchandise. It also allows them to easily order products for themselves or others. Direct marketing can be adopted at several levels in the distribution chain: producers, wholesalers as well as retailers may choose direct marketing (Marshall & Vredenburg, 1988 cited in [http://...2](#)). The transaction can consist of tangible goods, services, ideas etc. Direct marketing can be employed in consumer marketing and in business-to-business marketing, and suppliers can direct their activities at domestic as well as foreign markets.

### *3.1.1 Direct Sale*

Direct sale is one form of direct marketing and it can include door-to-door, office-to-office, home party selling etc. Door-to-door selling originated several centuries ago. Today there is lot of companies selling door-to-door, office-to-office, or at private-home sales meetings. Direct sale is an important form of marketing communication. Direct sale should not be confused with direct marketing, which may be described as an interactive system of marketing that uses one or more advertising media to affect a measurable response at any location. Direct selling refers to "...personal contact between a salesperson and a consumer away from a fixed business location such as a retail store" (Xardel, 1978, p.21). The direct-selling industry includes for example Electrolux (vacuum cleaners), Avon (cosmetics) and Oriflame (cosmetics). The home sales approach is a form in which friends and neighbours gather in a home where products are demonstrated and sold. A more precise definition has been proposed to refer direct selling as "...the marketing of consumer goods and services directly to consumers in their homes or the homes of friends, at their workplace and similar places away from shops, through explanation or demonstration of the goods or services by a salesperson, for the consumer's use or consumption" (Xardel, 1978, p.23).

People value the products available through direct sale and there are a large number of people who have purchased through direct sale in comparison to television shopping and on-line computer services. There are many advantages to buy from direct salespeople. The salespeople can arrange their meetings to fit consumers' schedules and they can deliver purchases directly to them. Direct salespeople are knowledgeable about their products and take the time to personally demonstrate and explain their products (<http://...3>). This process of relationship building within the marketing context is called relationship marketing and involves creating, maintaining and enhancing strong relationships with customers. The goal with relationship marketing is to develop a long-term value to customers. It is also very important that all of the company's departments work together with marketing as a team. Direct sale also involves face-to-face interaction with one or more prospective purchasers for the purpose of making sale. The objective is not only to sell the product to

a person but also to make permanent customers. Direct sale consists of six different elements (<http://...4>):

1. *Face-to-face interaction*, where a salesman has face-to-face interaction with the prospective buyer.
2. *Persuasion*, the salesman must have the ability to convince the customers so that interest may be created in the mind of the customers to use that product.
3. *Flexibility*, the approach of direct sale is always flexible. The salesman can explain the features and benefits of the product and sometimes also give a demonstration of the use of a product.
4. *Promotion of sales*, to convince more and more customers to use the product.
5. *Supply of information*, to give information to the customers regarding availability of the product, special features, uses and utility of the products.
6. *Mutual benefit*, it is a two-way process. Both the seller and buyer get benefit from it.

The main advantage with direct sale is that a detailed message can be sent to customers where feedback can be gathered to help to close the sale. In this way future customers can be identified and qualified and tailored solutions can be offered. Direct sale can also be beneficial in the 'after sale process' to handle customer problems and ensure customer satisfaction. The main disadvantages with direct sale are the high cost involved and its lack of breadth. The quality of a salesperson that is engaged in direct sale is very difficult to point out. The quality can vary from time to time and from situation to situation, it also depends on customers' demand and nature of product.

### 3.1.2 *A model of the sales process*

Weitz (1978) has developed a model of customer-salesperson interactions. In the first step in this model, the salesperson combines past sales experience with specific information gained from contact with the customer to be able to form an impression of the customer. The second step is that the salesperson is analysing the impression he or she got from the contact with the customer and creates a strategy. After the strategy a message is delivered, the salesperson can change his/her impressions of the consumer, change strategic objectives, change message and the style of communicating the message. The model stresses two main factors, the impression of the customer and the strategy to influence the customer. The former relates to the ability for the salesperson to formulate a communication strategy for the product. It is very important that the salesperson is able to estimate the customer's needs and product perceptions correctly. The latter one explains the salesperson's ability to develop an effective communication strategy. The effectiveness of each of these strategies depends on the salesperson's accuracy in estimating the customer's decision process. Accordingly to Weitz (1978), the best salesperson is the one that can develop the appropriate change strategy together with assessing a customer's needs.

### 3.1.3 *The direct sale process*

Effective companies are taking a *customer-oriented approach* to direct sale. This means that the company is training salespeople to be able to identify customer needs and to find solutions. There are also companies that use a *sales-oriented approach*, which means that they are relying on high-pressure selling techniques. By this approach the company assumes that the customer will only buy under pressure (Kotler *et al.*, 2001).

### 3.1.4 *Referent and expert power*

According to Weitz (1978) a salesperson's influence on the customer comes from two primary sources. Firstly, the salesperson is seen as a method of personal identification, a source of friendship, attraction and shared identity. This source of influence is called *referent power*. When customers see the salesperson as similar to themselves a sale is more likely to occur. Secondly,

the salesperson may be considered to be familiar with the product category and the source of information. This source of influence is called *expert power*. Expertise should be established if the salesperson has the knowledge to be seen as an expert, the customer is engaged in high risk and the salesperson does not regularly sell to the buyer. Similarity is best established when the buying task is simple, low risk and when the salesperson regularly sells to the buyer. A combination of these two approaches may be best, but it is up to the salesperson to develop a proper impression of the customer and formulate a sales strategy.

To summarise, direct sale is a process of relationship building within the marketing context. It involves creating, maintaining and enhancing strong relationships with customers. The goal with the relationship building process is to develop a long-term value to customers. Direct sale is a form of direct marketing, which includes selling to consumers in their homes or the homes of friends, at their workplace and similar places away from shops.

### **3.2 Research Review**

In this section of our research we will summarise some of the existing theories on relationship building within the direct sale context. Successful customer relationships do not just emerge or exist. The marketing literature points out the main importance of salespeople, and the successful development and maintenance of relationships. We have chosen some practitioners to get a wide perspective of this area and to identify some important factors involved in direct sale.

#### *3.2.1 Building strong relationship*

The article “The influence of salespersons’ customer orientation on buyer-seller relationship development” in *Journal of Business & Industrial Marketing*, 1998, written by Williams, reports on how to build strong relationships. The development and support of customer’s relationships is important to the long-term survival and enhanced profitability of organisations (Webster, 1992). Relationship marketing focuses on long-term customer satisfaction and value-added selling through the implementation of customer-

oriented strategies. A sales representative has the most direct customer contact; customers often perceive the behaviour of the salesperson as personifying (Grewal & Sharma, 1991; Magrath, 1990 cited in Williams, 1998). A firm's relationship marketing strategies is highly dependent on its sales representatives since they have the most immediate influence on its customers. Researchers are struggling to develop and implement customer-oriented relationship strategies.

#### *Buyer-seller relationships*

Sheth (1992 cited in Williams, 1998) characterises relationship marketing as the process of creating and maintaining harmonious relationships between suppliers and customers through mutual co-operation and commitment. The development of buyer-seller relationship is mainly affected by the effectiveness and efficiencies of repeat purchases made by loyal partners (Webster, 1994). Research studies show that the acquisition of new customers cost more than to keep and work with existing customers (Reichheld, 1996 cited in Williams, 1998). A buyer's trust and commitment to maintain and increase the level of dependence and interaction with a sales organisation's representative is called relationship development. According to Dwyer *et al.*, (1987) a relationship does not just occur, a relationship is generally growing and developing through a process of different phases. Each phase is built on the outcomes from the former phase and it represents a major transition in how the negotiating parties regard one another. If the behaviours and outcomes of the relationship have fulfilled expectations, then the basics of satisfaction and trust begins to develop. Based on these primary levels of satisfaction and trust, the dependence between the customer and salesperson grows, risk taking increases and the relationship continues to expand. Satisfaction, trust, and commitment are essential in the process of the development of the buyer-seller relationship (Dwyer *et al.*, 1987).

#### *Customer orientation*

Customer orientation is described as a philosophy and behaviour directed toward determining and understanding the needs of the target customer. It is also crucial to satisfy those needs better than the competitors to be able to

create a competitive advantage (Marquardt, 1989; Saxe & Weitz 1982; Williams & Wiener, 1990 cited in Williams, 1998). Marketing scholars have explored the customer orientation at two levels, the level of the individual salesperson as well as at the level of the organisation. These studies have showed positive associations with outcomes such as profitability, market share, salesperson performance, job satisfaction, organisational commitment and turnover intentions. In a selling situation, the customer-oriented behaviour of a salesperson provides informational evidence to buyers. A buyer is sensitive to both the verbal and non-verbal communication that interacts with its experiences and expectations regarding the salesperson and the selling firm.

Negotiation outcomes are influenced by the participants' use of three bargaining behaviour types: competitive, command and coordinative (Campbell, 1985; Clopton, 1984; Pruitt & Lewis 1977; Pruitt 1981 cited in Williams, 1998). Competitive and command negotiating behaviours attempt to maximise one's own outcomes through opportunistic behaviours such as threats, promises, effective arguments, positional commitments, and an unwillingness to share information. These behaviours prevent the development of trade-offs and result in an increased level of conflict and decreased level of satisfaction. Coordinative approach employs extensive information sharing and is characterised by flexibility in resolving issues, two-way communication, and willingness to explore alternative solutions. Both the customer and the salesperson are working toward a mutual benefit and they are willingly sharing information with each other, this leads to that role conflicts are reduced and satisfaction is increased (Dabholkar *et al.*, 1994 cited in Williams, 1998). Furthermore, customer orientation brings together the personal behaviours of information sharing, needs discovery and response adaptation that further encourage satisfaction, trust, shared goals and commitment, and mutual interdependence. Customer-oriented behaviour allows both the selling and the buying organisations to get mutual goals and satisfactions through an exchange relationship.

The results of the study show that customer orientation is a meaningful variable to develop and sustain buyer-seller relationship. This study presented a strong and positive relationship between customer orientation and the development of buyer-seller relationships. These findings suggest that the characteristics of customer-oriented salespeople are a strong, significant and positive association with buyer-seller relationship development. Investing time and effort to be able to understand the customer's needs and problems has a positive effect on the customer. This positive effect gives an increased level of customer trust in doing continued business with that salesperson. As the direct point between the buying and selling organisation, the selling behaviour of the salesperson seems to provide a key link in the relationship marketing strategy of the firm.

### *3.2.2 Trust and culture in relationship marketing*

The article “The direction of marketing relationships” in *Journal of Business & Industrial Marketing*, 2000, written by Rich, reports on trust and culture in relationship marketing. There are two views of relationship marketing that has to be considered, relationship generalisation and rational evaluation. The former is the belief that the relationship is a quality and that consumers generalise positive feelings about the provider. The latter holds that relationship marketing adds value to the product or service by meeting certain demands but that consumers are mainly concerned with core product and service quality (Crosby & Stephens, 1987).

Establish relationships that have meaningful sales results will require that individuals in both the buying and selling organisations desire such relationships. The desire for such relationships depends on the stage the relationship has achieved. In the early stages of involvement between a selling and buying firm, the customer only expects low involvement. Over time, this can shift to a high relational involvement where the customer uses trust and commitment for determining future activities with the selling firm (Garbarino & Johnson, 1999 cited in Rich, 2000).

The practice of relationship marketing is primarily good communications (Feiertag, 1997 cited in Rich, 2000). Loyalty is based on developing trust that creates a demand in the mind of the customer. Trust contributes to satisfaction and long-term relationship. Studies have verified that long-term sales success is relationship oriented. When a buyer is interested and the seller gains trust, it makes almost no difference how the products are presented. Trust has a major point to cultural differences that drive many business activities within all societies. Many companies involved in commerce today follow the same pattern. However, relationship marketing is a multi-stage process that emphasises personalisation and empathy to be able to serve customers and identifying possibilities (Jolson, 1997). The older the buyer is the more crucial is the life experience factor in the decision process.

The study of Chinese relationships in a business setting has become a very important subject for several researchers. In China, the elements of relationship marketing are more coherent and they form a configuration known as *Guanxi* (Boye, 1996). Chinese people regard themselves as a member of a group rather than as individuals. By adopting the goals of the group they will get reciprocal care and protection. Subsequently they are more inclined to social conformity, submission to social expectations and worry about external opinions. This strong sense of collectivism means that informal channels of communications are important in a collective society. In other words, consumers tend to rely more on word-of-mouth communication because of the high contact rate among group member (Kindel, 1982).

### *3.2.3 Relationship selling activities on salesperson performance*

The article “Relationship selling behaviours: antecedents and relationship with performance,” in *Journal of Business & Industrial Marketing*, 2000, written by Boles *et al.*, examines the relationship selling activities on salesperson performance. Increasing the performance of salespeople is the most important task that a sales manager faces in the current business environment. Researchers have examined the importance and value of building relationships with customers (Crosby *et al.*, 1990). Findings from several studies suggest that building relationships with customers is one possible way to improve

sales performance. According to Macintosh *et al.*, (1992 cited in Boles *et al.*, 2000) top performing salespeople tend to basically spend more time to build relationships with buyers than they try to gain a quick sale. Research also indicates that relationship quality between a buyer and salesperson is indirectly related to a customer's intention to do business with the salesperson in the future (Crosby *et al.*, 1990). A salesperson that spends time to build strong relationships with customers will improve his/her performance. One research approach that has been used to examine performance is to compare the activities of high sales performers and low sales performance. It is shown that high performers will spend their time differently than low performers (Macintosh *et al.*, 1992; Szymanski & Churchill, 1990 cited in Boles *et al.*, 2000).

#### *Salesperson performance*

Many researchers have examined the determinants of salesperson performance but most of the research has been based on the framework of Walker *et al.*, (1977). It examines the effects of six categories on salesperson performance. These categories are:

1. Role
2. Skill
3. Motivation
4. Personal factors
5. Aptitude
6. Organisational/environmental factors

The most important factor is the personal factor category, which includes items such as age, gender, weight, race, appearance, and education. Following personal factors in order of importance were skill and role variables. Aptitude, motivation and organisational/environmental factors had the smallest connection with performance. This result verifies that personal factors have the most important role in determining which individuals will be effective performers. Another factor that also plays a crucial role is the type of product or industry that is used.

### *Salesperson behaviour*

Salesperson behaviour includes sales force activities required in the sales process and activities related to the development of relationships with customers. Weitz (1981) proposed a framework that linked the selling behaviour to a salesperson's effectiveness. According to Weitz (1981) the action and behaviour of a salesperson during a sale can be very important to the quality interaction with the buyer.

One unexplored type of salesperson behaviour is the relationship selling behaviour. Relationship selling consists of three dimensions: interaction intensity, mutual disclosure and co-operative intentions (Crosby *et al.*, 1990). Interaction intensity refers to the level of interaction between the salesperson and the buyer. When interactions become more usual, the level of trust and understanding between parties develops. Mutual disclosure is the sharing of personal and organisational information. This information can be used to help to solve problems and to better understand the partner. Both interaction intensity and mutual disclosure can increase the exchange relationship. The final dimension is co-operative intentions. When a salesperson is adopting a co-operative selling it will lead to easier gain respect and trust from the buyer. The link between relationship selling behaviour and performance is based on the development of trust between the salesperson and the buyer. Relationship selling behaviour focuses on the development of personal relationships between the salesperson and the buyer. When there is a strong relationship between the salesperson and the buyer there will also be greater trust and communication.

#### *3.2.4 Emotional intelligence*

The article "Customer-Oriented Selling: Exploring the Roles of Emotional Intelligence and Organizational commitment" in *Psychology & Marketing*, 2004, written by Rozell *et al.*, explains that salespeople are often placed in situations where role conflict and ambiguity are common. They are often expected to sell a firm's products and services to generate immediate profits, while at the same time building customer satisfaction and promoting lifetime customers and the long-term economic existence of the firm.

They also explain that there is more than one factor that has influence on the degree of customer's experienced satisfaction with their purchases. Product performance, price, service, customer expectations and numerous other factors interact to determine the extent of customer satisfaction. One of the most important factors is the salesperson. The salesperson's role in determining satisfaction is very much based on the expectations the salesperson helps to create, the service the salesperson provides, and the degree to which the salesperson provides solutions that create satisfaction for the customer (Pilling & Eroglu, 1994 cited in Rozell *et al.*, 2004).

Rozell *et al.*, (2004) also stress the importance of emotional intelligence. Their research result indicates that a salesperson's customer orientation level is significantly related to emotional intelligence and that improvements in emotional intelligence are correlated with greater levels of customer orientation, which is important in the process of direct sale. Emotional intelligence is in the article defined as "...the capacity to process emotional information accurately and efficiently, including that information relevant to the recognition, construction, and regulation of emotion in oneself and others" (Rozell *et al.*, 2004, p.406). This means that emotional intelligence includes self-confidence, self-control, emotional awareness, and most importantly empathy. It is explained that emotional intelligent individuals may be more aware of their own feelings as well as the feelings of others. They are also better at identifying and communicating them when appropriate. This indicates that people who have higher emotional intelligence are more capable of selecting the optimal course of action, which should make them more suitable working with customer-oriented selling.

### *3.2.5 Relationship between salespeople and customer*

The article "Customer-Sales Associate Retail Relationships" in *Journal of Retailing*, 1996, written by Beatty *et al.*, reports on the relationship between salespeople and customers in a retail context. Beatty *et al.*, (1996) have made many in-depth interviews to examine these issues. In their research they found that important issues in the process of relationship building are trust, friendship and functionality.

Trust is something a salesperson gains by continually demonstrating that they have the customers' best interests at heart. The skills required to meet customer needs also contribute to the development of trust. If a salesperson solves a consumer problem honestly and skilfully this will reap benefits for both buyer and seller. The study also showed importance of patience, self-respect, and respects for other individuals, to achieve a long-lasting relationship. Emphases were also shown on the importance of being honest to customers and being truly concerned about what is best for them.

Friendship was shown to be another important issue. Customers often discussed the relationship between a salesperson and a consumer in social terms. It could be shown that strong associate-customer friendships were common, although most were considered 'business friendships,' not extending beyond the work place. The close and personal 'friendship' was the reason why many customers chose to come back.

Functionality was found to be something that cannot be overestimated. Very often the relationship worked because customers disliked shopping or just did not have time to shop themselves. Still they wanted fashion advice, as well as quick and easy shopping. They then chose to shop at a certain place and from a certain salesperson because they know the service there is unique and that they could not find it elsewhere.

Beatty *et al.*, (1996) study also explained that relationships between salesperson and their customers have great benefits for the company; it means higher sales and more loyal customers. They noted that customers appear to engage in extensive word-of-mouth advertising when having positive feelings towards employees. In the other end they noted that many customers' loyalty to a company were based on the relationship to a salesperson. When asked what they would have done if 'their' salesperson moved to a store nearby, almost everybody said they would follow the salesperson to the new store as long as the merchandise was equivalent.

The relationship between a salesperson and a customer also has an impact on the loyalty and psychological commitment to the company from the side of the salesperson. The salesperson does not only feel committed to the company, but also to their customers. One other idea that came to light in their examination of employee customer orientation was the importance of empathy. The idea of empathy allows a salesperson to read his/her customer. Further, it was shown that it is critical for a company to ensure that a salesperson is enough rewarded and challenged in his/her job. The company has to make sure that both the economic and psychic needs are met to produce loyalty to the company. Employee satisfaction and commitment to the company is linked together and will help insure customer loyalty.

### *3.2.6 Conflicts in the direct selling context*

The article "Measuring buyers' perceptions of conflict in business-to-business sales interactions" in *Journal of Business & Industrial Marketing*, 2004, written by Reid *et al.*, reports on conflict between individuals in the direct selling context. It is debating the relationship of conflict in buyer-seller interactions and the performance by parties in that interaction.

According to their former research suggests that different dimensions of conflict have different antecedents and consequences. Even though conflicts are often thought about as a negative experience, not all conflicts have bad consequences in sale. Research has shown, (Jehn, 1997) that certain amount of conflict concerning an issue involved in a special situation might lead to positive sale outcomes. Reid *et al.*, (2004) explains that commonly cited antecedents to conflict include uncertainty/risk, power, empathy, culture, stress, trust, personality, communication behaviour and commitment.

One challenge from a salesperson's perspective is to recognise when a conflict situation exists and to manage it accordingly. Selling is more and more focused on relationship management and building long-term customer relationships, which makes the management of conflict in the sales process critical. Reid *et al.*, (2004, p.3) refer to this interpersonal level conflict as

PSIC and define it as follows: “PSIC is the perception of conflict generated during sales interactions between a salesperson and a buyer.”

Reid *et al.*, (2004, p.3) suggest that a sales interaction conflict can be seen as a part of two types of conflict: relationship conflict and task conflict. They define these as:

- “*Relationship conflict* refers to the existence of interpersonal incompatibilities between a salesperson and a buyer. These interpersonal incompatibilities may include tension, animosity, or annoyance.”  
- Relationship conflict has its basis in the people involved.
- “*Task conflict* refers to disagreements between a salesperson and a buyer about the content of tasks being performed. These disagreements could relate to differences in viewpoints, ideas, and opinions.”  
- Task conflict has its basis in the issues involved.

Reid *et al.*, (2004) suggest that the perception of customer orientation, empathy, and trust add to the perceived level of both relationship and task conflict in a sales setting. It is also suggested that both the relationship and the task conflict perceived by the buyer have influenced the outcome of a given sales interaction. Reid *et al.*, (2004) note that relationships of empathy and trust are often mentioned in general conflict literature as related to conflict. They also argue that if a salesperson is perceived as more customer-oriented, the customer is less likely to get into a conflict. Empathy is seen as affecting both relationship conflict and task conflict. If a buyer feels that a salesperson understands how they feel (about the relationship) and think (about the task) about the likeliness to get into conflict is less imminent.

Both relationship conflict and task conflict have impact upon sales performance, but it appears as if relationship conflict is of greater importance. In both cases the probabilities of getting the sale is lower when the level of conflict is high. Therefore salespeople need to think about how they behave

and interact in the relation with a customer. The three antecedents tested by Reid *et al.*, (2004) trust, customer orientation, and empathy, are all known to be important in the selling process. In all cases higher levels of conflict were associated with lower levels of sale outcome.

### 3.2.7 Summary

We have now examined several theories and looked at the specific characteristics of direct sale in the relationship building process. Throughout the whole literature review different important factors that affect consumers in direct sale have been emphasised. In the section below we have identified emphasised factors from the literature (*italicised*).

One major factor that influences the degree of the customer's satisfaction is the salesperson. A company is dependent on its sales representative since they have an immediate influence on the customers. Therefore, the process of creating and maintaining relationships between suppliers and customers through *commitments* are of great importance. Increasing the performance of salespeople is the most important task that a sales manager faces in the current business environment. Building relationship with customers is one possible way to improve sales performance. The link between selling *behaviour* and performance is based on the development of *trust* between the salesperson and the buyer. When there is a *friendship* relation between the salesperson and the buyer there will also be greater *trust* and *commitment*. If the *behaviour* of the salesperson fulfils the buyer's expectations, satisfaction and *trust* begin to develop. Close and personal 'business *friendship*' is showed to be the reason why many customers choose to be *loyal* to a salesperson. This relationship creates mutual *commitment* and *loyalty* between the buyer and the seller.

*Trust* and *commitment* are essential in the process of developing a buyer-seller relationship. In the selling relationship, both the verbal and non-verbal *communication* of the seller interacts with the buyer's experience and expectations. *Trust* contributes to satisfaction and long-term relationship. *Trust* is something a salesperson gains when demonstrating that they think about what is best for the customers and when they have the skills to meet a

customer's need. When a salesperson is adopting a co-operative selling it will lead to easier gain *respect* and *trust* from the buyer. It is shown that *respect* for other individuals is important to achieve a long-lasting relationship.

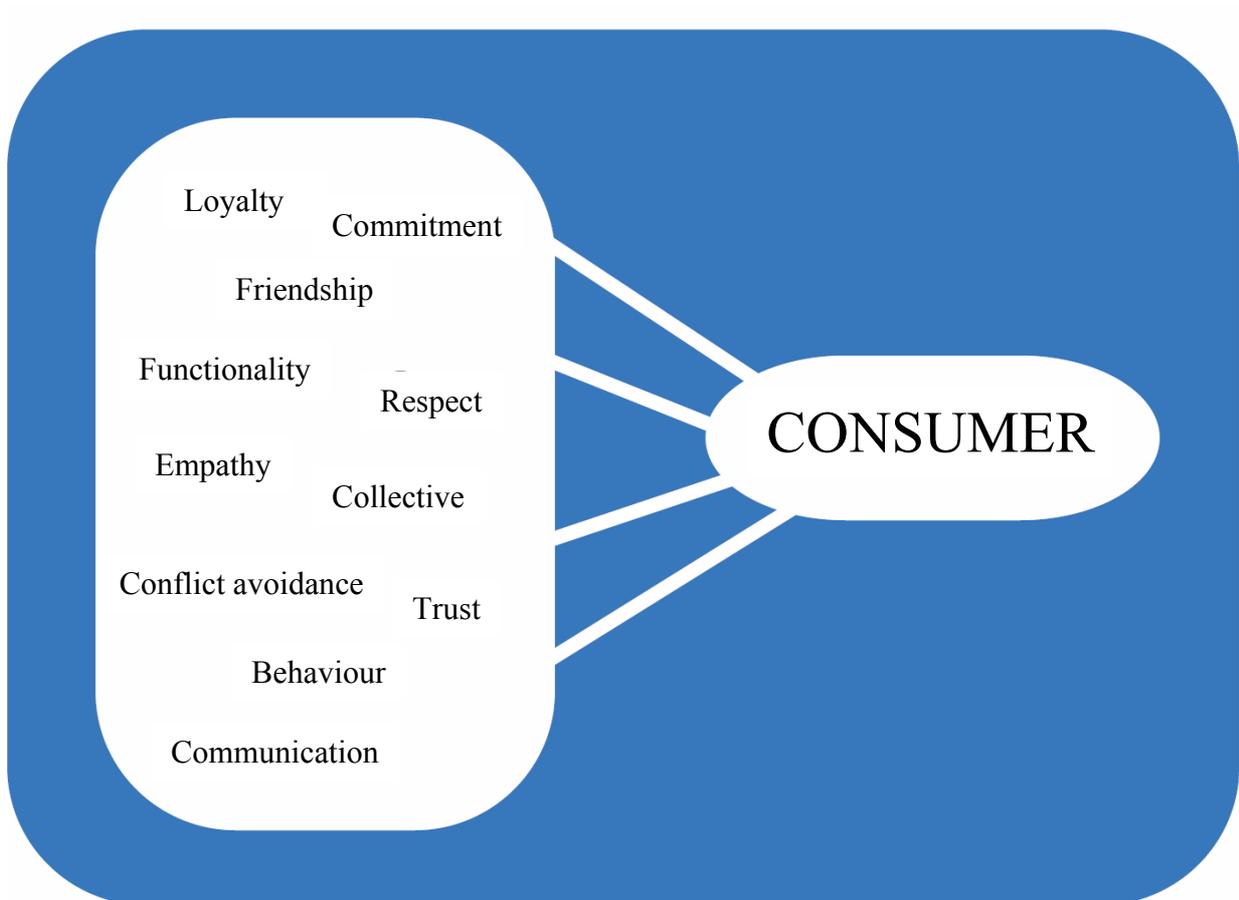
*Empathy* is the most important part of emotional intelligence. It is explained that emotional intelligent individuals may be more aware of their own feelings as well as the feelings of others. Salespeople with the ability to show *empathy* are better at identifying and communicating feelings when appropriate. This helps them to avoid *conflict* and makes them more capable of selecting the optimal course of action, which makes them more suitable working with direct selling. Factors that can lead to *conflicts* can be uncertainty/risk, power, *empathy*, culture, *trust*, *communication* and *commitment*. *Conflicts* are an important issue in the buyer seller relationship. If the buyer feels that the salesperson understands how they feel and think the likeliness to get into *conflict* is less imminent.

*Functionality* is something that cannot be overestimated in direct sale. Very often customers dislike shopping in shops or do not have time to shop themselves; therefore they prefer to shop at home. The customers often choose to buy from a certain salesperson because they have a *friendship* relation with the salesperson.

*Collective* people regard themselves as a member of a group rather than as individuals. By adopting the goals of the group they will get reciprocal care and protection. *Collective* people are more inclined to social conformity, submission to social expectations and worry about external opinions. This strong sense of *collectivism* means that informal channels of communications are important in a *collective* society. In other words, consumers tend to rely more on word-of-mouth *communication* because of the high contact rate among group member.

The model below shows important factors that can influence the consumer when the company is using direct sale.

Figure 3.1 Important factors affecting the consumer in direct sale



### **3.3 China**

Our main purpose of this dissertation is to identify and investigate factors involved in direct sale and put them in relation to Chinese culture. We have so far dealt with the fundamentals of direct selling. Our first step has been a presentation on the interaction between the seller and buyer and the prerequisites for building up a long-term relationship. We will now enter our way into the discussion about China. In following sections a brief historical review is given then major characteristics of the Chinese culture will be explored.

#### *3.3.1 A brief historical review of the economy of China*

The People's Republic of China is quickly becoming one of the world's fastest growing economies and is currently number two in the world after the US (The World Factbook, 2004). It is the most populous country in the world and was once the home of a centrally planned economic system, that for decades kept China past in welfare.

After World War II, the communists under Mao Zedong established a dictatorship and a Soviet style centrally planned economy, imposing strict control over everyday life. After 1978, Mao Zedong's successor Deng Xiaoping gradually introduced a market-oriented economy, trying to decentralise the economic decision-making. The government encouraged non-agricultural activities, such as village enterprises in rural areas, promoted more self-management for state-owned enterprises and also permitted a variety of small-scale enterprises in service and light manufacturing. They also opened the economy to increase foreign trade and investment. The government stressed the importance of raising the personal income and consumption and introduced a new management system to help increase productivity (<http://...3>).

The Chinese economy has continued to grow at a rapid pace during the last decade and 2003 they had a growth rate above 9% (The World Factbook, 2004). This remarkable economic growth is very much due to increased foreign investment, which is a strong element in China. It was in 1989 that the

government introduced legislations and regulations designed to encourage foreigners to invest in high-priority sectors and regions. Within a couple of years restrictions on joint venture was eliminated, tax benefits for wholly foreign-owned businesses were introduced, foreign investors were allowed to purchase shares in selected companies and foreign banks were allowed to open branches in Shanghai. Ever since then, China has kept on loosening up their foreign trade barriers. In the end of 2001, China became a member of the WTO, which further helps strengthen its ability to maintain a strong growth rate and also puts more pressure on the hybrid system of strong political controls and growing market influences (The World Factbook, 2004). A further step towards an open market economy will soon be taken when allowing direct marketing, which is expected to be made in December 2004 (Oriflame, 2003). It is said that by 2012 China will be the nation with the highest GDP in the world. (<http://...4>).

### *3.3.2 Chinese Culture - Confucianism*

There have been many different elements in the cultural evolution of China. As in other countries cultural variables have helped shape the foundation of the Chinese institution. They permeate social relations in everyday life, both inside and outside the basic work unit. China is widely assumed to be 'different' from the west. Both outsiders and locals tend to emphasise its cultural distinctiveness or even uniqueness.

Perhaps the most important influence on Chinese everyday life has been the ideology of Confucianism. Confucius (551-479 BC) based his ideas on absolute respect for tradition, on a strict hierarchy of primary relationships between family-members, and then again between the people and their rulers; he called it the five cardinal relationships (Fang, 1999). The five relationships constitute the foundations of traditional Chinese culture-values and they are: between father and son there should be solidarity and affection; between sovereign and minister, righteousness; between husband and wife, attention to their separate functions; between old and young, a proper function; and between friends, fidelity (Osland, 1990). These five relationships serve to define each individual's position and role in the society. Confucius'

philosophy intended to guide people's daily life and it established a mode of thought and habit. The Chinese have seen these sets of moral standards as the five virtues of humanity: benevolence, righteousness, propriety, wisdom and trustworthiness. It has persisted and blended well with other belief systems that many of its supporters often held at the same time, such as Buddhism and Daoism (Li *et al.*, 1999).

### *3.3.3 Chinese Business Culture*

In the research about Chinese negotiation style conducted by Fang, he explains the Chinese business culture based on three indigenous concepts: Confucianism, PRC (People's Republic of China) - condition and Chinese stratagems. These three concepts can be seen as a framework of the Chinese business culture. According to Fang (1999) Confucianism is based on six core values: moral cultivation, importance of interpersonal relationship, family orientation, respect for age and hierarchy, avoidance of conflict and need for harmony, and concept of face. PRC condition is referred to the contemporary political, legal, economic institutions etc. in the social system of PRC. Chinese stratagems have their philosophical roots in the *Taoist Yin Yang* and *Wu Wei* principles. It is basically "...the traditional Chinese schemes used deliberately or inadvertently by the Chinese to cope with various kinds of situation and gain psychological and material advantage over their adversaries" (Fang 1999, p.14).

#### *PRC - Condition*

As mentioned before PRC - condition refers to the contemporary social forces in China, which make it different from many markets. Bureaucracy is the central theme and it is characterised by centralised decision-making, internal bargaining and political 'quick' buying (Fang, 1999). All these contribute to make the Chinese business culture highly political. Most of the time, the Chinese government is the key player in the business negotiation process. Although these fast negotiation process known as 'quick' buying, occur from time to time, negotiating with the Chinese is generally very time consuming. There are several reasons why and Fang points out a few of them: centralised planning, decision-making structures, officialdom and poor infrastructure.

However, China is constantly changing and it is making its ways towards a more open and market-oriented framework, politically as well as economically.

#### *Chinese stratagems*

Chinese stratagems represent the strategic force that shapes the strategic negotiating behaviour. Chinese stratagems emphasise on the importance of using mental force rather than being engaged in pitched battles to cope with situations and to gain advantages over opponents. Its philosophical roots lie in the ideology of *Taoism*, *Yin Yang* and *Wu Wei*. It is simply saying that the best way to manage things is by doing them strategically (Fang, 1999).

#### *Confucianism*

In the Confucianism explanation of the Chinese business culture, trust acts as the central theme. Chinese people rarely do any business with people they do not trust. In the Chinese culture trust between people outside the family, network or group needs more time to cultivate than in other cultures (Fang, 1999). Chinese people will use time as a vehicle to test the sincerity of their counterparts. This could be one of the reasons why negotiation with Chinese is so time consuming. This interpersonal relationship oriented Confucian teaching is also the reason why Chinese business people look at you as an individual and not as an organisation. Therefore, interpersonal communication skills become vital in the Chinese business process.

#### *3.3.4 Relationships in China*

Li *et al.*, (1999) believe that the Chinese society is largely build up by social hierarchy and social relations. But an interesting feature is that the relationship between people are many times enforced and determined by kinship and geographical proximity. They also explain these connections to be either inherited by children from parents or connections from spouse's families. These connections together with Confucius five cardinal relationships discussed earlier are seen upon as the primary network in Chinese society. Except this primary network a secondary network should also be recognised. This secondary network takes into account the utilitarian and temporary

connection establishment outside the primary network. Li *et al.*, (1999) identify the secondary network to be more instrumental oriented while the primary one is considered to be a social instrument. Both two networks build up the nature and effects of relationships in Chinese society. However, whether the relationship is established in the primary or the secondary network it needs to be reinforced and maintained. The following sections will discuss several traditional cultural values and norms that contribute to the continuity of interpersonal relationship.

### *Collectivism*

The Chinese people can be defined as highly collective. This means that they rarely regard themselves as individuals but more as a member of a group. By adopting the goals of the group they will get reciprocal care and protection (Kindel, 1982). Subsequently they are more inclined to social conformity, submission to social expectations and worry about external opinions. This strong sense of collectivism means that informal channels of communications are important in Chinese society. In other words, Chinese consumers tend to rely more on word-of-mouth communication because of the high contact rate among group members. Besides, Chinese consumers tend to rely more on informal channels rather than the formal ones (Kindel, 1982).

### *Li*

*Li*, which means rite, is a term for moral codes and social institutions; many assume that the practice of *Li* is to enforce social conformity at the cost of the individual. However, an individual personality is not an entity cut off from the group. According to Confucius, the optimal way to govern is not by legislation but by way of moral education and by example. Confucius believed that leading the people with political force and restricting them with law and punishment, they will only avoid law violations, but will have no sense of honour and shame. Instead if you lead them with morality and guide them with *Li*, they will develop a sense of honour and shame, and will do well of their own accord (Fang, 1999).

This philosophy could have been the reason behind the strong Chinese cultural preference for basing business transactions upon the quality of interpersonal relationships and for settling disputes through negotiation rather than relying upon contracts and legal process.

Respect for hierarchy and learning means that long serving in a company will give respect and status. Collectivism manifests itself in an orientation towards groups so that, for example, there is often resistance to the introduction of individually based performance-related pay. The perceived need to guarantee trust and maintain harmony leads to special importance being placed upon personal relationships (Fang, 1999).

### *Guanxi*

*Guanxi* means ‘relationships’ and it can stand for any kind of relationship. In the Chinese business world it could stand for the network of relationship between parties, which co-operate and support each other. It basically comes down to favours, which are expected to be done regularly and voluntarily. Therefore, it is an important concept to understand if you want to function effectively in Chinese society (Li *et al.*, 1999).

To be able to establish a good *Guanxi* with your counterparts it could more or less guarantee that the business will be successful. By getting the right *Guanxi*, the organisation minimises the risks, frustrations, and disappointments when doing business in China. Often it acquires the right *Guanxi* with the relevant authorities that will determine the competitive standing of an organisation in the long run in China. And moreover, the inevitable risks, barriers, and set-ups one will encounter in China will be minimised when you have the right *Guanxi* network working for you. That is why the correct *Guanxi* is so vital to any successful business strategy in China (Boye, 1996).

Being able to develop and foster *Guanxi* requires time and resources but it is probably worth the investment, because what one get in return could be much more valuable, especially in crises. This *Guanxi* concept even applies within

the domestic business in China. It is common that they establish networks with their suppliers, retailers, banks and local government officials. Many times individuals of an organisation will visit the residence of their acquaintances from other organisations.

### *Renqing and Mianzi*

*Renqing* literally means human feelings and according to professor Ambrose King (Boye, 1996), professor in the Society Department of the Chinese University of Hong Kong, the traditional Chinese values are based on human feelings. Traditionally this term is explained as a set of norms, which people should abide in order to get along with each other (Li *et al.*, 1999). By giving favours to other individuals one are expected to get favours back from them as a payment of gratitude in the future. Many Chinese people use this concept of *Renqing* simply with the intention of getting political, social, or economic benefits. This pragmatic utility view of the concept has transformed it into an exchangeable resource (Li *et al.*, 1999).

*Mianzi* (face) can be explained as a sense of status, how other people perceive you in relation to others. It is something that society has more or less bestowed upon a person. It could be measured in terms of what rank one have in the society, your wealth and power. It can be seen as a buying tool when interacting with other people. The more *Mianzi* you have the more you can 'buy'. *Mianzi* is an important element in the daily life of a Chinese, they are exceedingly conscious of any flaws in their own *Mianzi* and to the possibility of harming other persons' *Mianzi*. In any kind of relationship losing 'face' is like being robbed of their social status and bringing great humiliation on them. The importance of saving 'face' for oneself and others has resulted in using third parties or intermediaries when dealing with others especially in business culture (Engholm, 1991).

In the context of consumer behaviour, Yang, (1989) points out that the desire to maintain social harmony in a public situation often discourages Chinese consumers from voicing their dissatisfaction. The need to maintain 'face' in public also serves as a negative force for complaint behaviour because not

getting a satisfactory result from the complaint means losing 'face' in front of people, even if these people are not significant to them.

The principle of moderation obviously elevates Chinese consumers' level of tolerance for product dissatisfaction and their threshold for taking action against bad business practices. The belief in reciprocity also contributes to prevent them to take any direct action. Instead they believe that those who exercise bad practices will be retributed (Yang, 1989).

*Renqing* and *Mianzi* express the norm of reciprocity in the Chinese society. The implicit rule of these two concepts states that reciprocity is a moral obligation. Li *et al.*, (1999) believe that reciprocity is an essential component of purposive behaviour in relationship marketing. Consequently, by understanding how reciprocity works in the Chinese culture the interpretation of the Chinese consumer will be easier. This refers to both the Chinese consumers' exchange behaviour and their willingness to stay in the relationship with a firm and its sales and service personnel (Li *et al.*, 1999).

### 3.3.5 Summary

We have now examined major characteristics of the Chinese culture. China is perceived by many to be different from the west. Its culture foundation is mainly based on the philosophy of Confucianism, which has a great affect on the Chinese people's daily life. The core value of Confucianism lies in the perception of relations and the absolute respect for tradition. Concept of face, avoidance of conflict and respect for age and hierarchy are also emphasised as important factors in Confucianism. The ideology of Confucianism together with PRC - condition and Chinese stratagems are seen as a framework of the Chinese business culture.

The Chinese people can be defined as highly collective, which means that they see themselves as a member of a group rather than individuals. For this reason it is very important how other group members as well as other people perceive you in relation to others. The Chinese society is largely build up by social hierarchy and social relations. A good relationship with ones counterpart

could more or less guarantee that the business will be successful. Negotiations in China are very time consuming though trust has to be developed before doing business. The development of trust in the Chinese culture needs more time to cultivate than in other cultures. One reason can be that Chinese people look at you as an individual and not as a part of an organisation, which makes the relationship more personal.

# Chapter 4

## The Model Emerges

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*Important direct sale factors in relation to Chinese culture have been discussed in former sections. In the following section Chinese culture facing direct sale is discussed. A model is created which explains the degree of importance when using direct sale in China. Afterwards, the main questions will be created in order to test the model.*

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### **4.1 Chinese culture facing direct sale**

Cultural values have implications for marketing communication and direct selling activities. A high contact rate among group members, reliance in informal channels of communications and the speed of message transference points to the fact that Chinese consumers tend to rely more on word-of-mouth communication than formal communication channels. Chinese people are regarded to be highly collective which means they see themselves as a member of a group rather than as an individual. Therefore, it is believed that it is important to work close with one's target market. The sellers are also more likely to cultivate a friendly relationship with members of the society, as they believe their existence is dependent on society. Direct selling is therefore an important communication tool for the sellers in order to belong to the in-group. Through appropriate training and compensation, salespersons can be motivated to care and pay more attentions to each consumer's shopping needs resulting in better relationships with the consumers. Therefore, direct sale and personal relations will fit well in collectivist societies. However, the importance for the Chinese to belong to an in-group can result in purchasing against their will, if the salesperson is a friend. In the long run this may result in a conflict, affecting the relationship in a negative way. The customer will have the feeling of being forced to buy the products. Once he/she stops to buy the seller might perceive it as an insult.

The Chinese cultural heritage emphasises for the maintenance of harmonious relationship with their friends. Chinese are more apt to buy products from

their friends with the belief that it will favour and maintain their relationship. A strong friendship between the salesperson and the consumer will create a long-term relationship consisting of trust, commitment and loyalty. The salesperson is seen as a method of personal identification, a source of friendship, attraction and shared identity. This source of influence is called *referent power*. When customers see the salesperson as similar to themselves a sale is more likely to occur. Chinese consumers are more likely to rely on, and make use of rumour from the informal channels since they carry facts and rumour.

Consumers look at Chinese salespeople as individuals rather than an organisation. Therefore, communication between two parties becomes crucial in a business process. A buyer is sensitive to verbal and non-verbal communication, which interacts with consumer's experience and expectation about the salesperson. The Chinese society constitutes of a web of relations. The direct and indirect ties connect the individual to his/her peer-group as well as to other groups within the same network. These ties play a significant role for direct selling because they can help to boost the effect of word-of-mouth. Product information can easily flow through these ties within the network and the stronger the ties are the more effective is the network to channel information. Consumers will see this kind of personal information to be more reliable than other non-personal sources. Other cultural factors, which may influence the acceptance of direct selling, are such as the Chinese belief in modesty and self-effacement. These two cultural factors reflect the actual selling situation as preference of helpful, friendly services rather than aggressive sales tactics.

An important issue within the process of relationship building is the management of conflict. This is of special importance in the Chinese culture where it is important to maintain social harmony in every situation. According to the Chinese stratagems they prefer to use mental forces instead of being involved in pitched battles to cope with situations and gain advantages of opponents. Chinese might be afraid to speak up about their dissatisfaction because when they do not get a satisfied result from the complaint it could

mean losing 'face' among people. Trust acts as a central theme in the Chinese business culture and the Chinese rarely do business with people they do not trust. In Chinese culture trust between the people outside the family, the network of group, need more time to cultivate than in other cultures. Therefore Chinese people need much time to test their counterparts before getting loyal. The behaviour and outcome of the relationship between the buyer and seller have to fulfil expectations before trust and commitment can begin to develop. A salesperson has the most direct customer contact and a firm's relationship marketing strategies is highly dependent on its salespersons. Therefore the behaviour of the salespersons is crucial in the relationship building process.

It has been shown that respect for other individuals is important to achieve long lasting relationships. When the salesperson adopts a co-operative selling it will lead to more easily gaining respect and trust from the buyer. The salesperson may be considered to be familiar with the product category and the source of information. This source of influence is called *expert power*. Expertise should be established if the salesperson has the knowledge to be seen as an expert, the customer is engaged in high risk and the salesperson does not regularly sell to the buyer.

Functionality of home party selling is a way of direct sale where face-to-face contact with the customer provides the opportunity for social interaction. This factor has been considered as the most favourably perceived attribute of direct selling and it also allows a close relationship with the customers. Functionality is something that cannot be overestimated. The relationship in a direct sale environment may work because some customers dislike shopping in shops and prefer the convenience of buying at home. Since building network in the Chinese culture is very common, Chinese customers may show a pattern of buying products for each other. This in turn will favour direct sale. In this way the customer network will expand rapidly and effectively.

In the Confucian philosophy about relationship building the need to show empathy towards one's counterparts is crucial. Consequently, for sellers to be

able to show empathy towards their consumers it will provide them with great business benefits. They can through empathy read their consumers' need and provide services accordingly. Conflict of interest can easily be avoided if the buyer feels that the salesperson understands how they feel and think. This is where the challenge for the salesperson lies, to be able to recognise possible conflict situations.

All the factors above are considered to be of importance in the process of direct sale in China. The core value in the direct sale concept is to successfully build up a relationship between the buyer and the seller. The question is: How important are the identified factors involved in direct sale when implementing direct sale in China?

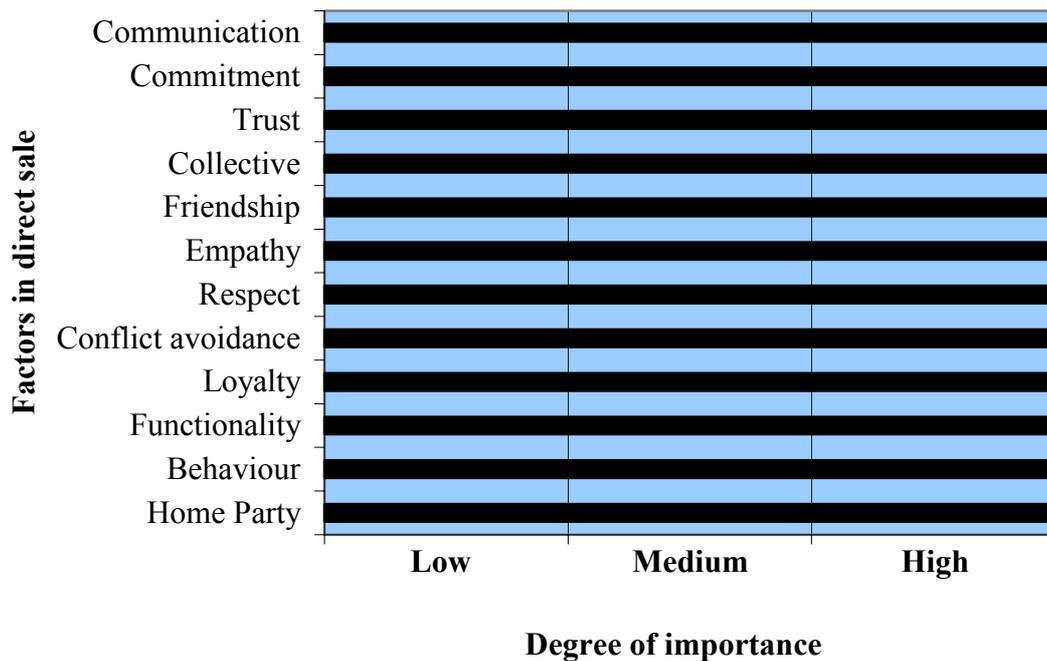
#### **4.2 The model**

We have from the factors above developed a theoretical model, figure 4.1, that we think will be helpful for companies entering the Chinese market through direct sale. The aim is to show how important each of the factors is for direct selling in China. The model consists of important factors taken from the research reviewed (figure 3.1). From the interpretations of the research review we made the conclusion that all these factors are considered to be of high importance in relation to Chinese culture. The different factors in the model are ranked by the degree of importance. All of the factors are considered to be of high importance but communication, commitment, and trust are emphasised in the literature as the most important factors. Therefore we have chosen to put them on the top of the ranking list in the model. Due to the case study of Oriflame, home party selling is included as one of the factors. It is ranked at the end of the list although it is still an important factor for direct sale. The theoretical model will probably be changed according to the result from the survey. To determine the degree of importance we use a scale from low to high. Low indicates that the factors in direct sale have no or little influence on the consumer's buying decision. Medium shows that the consumers perceive the factors in direct sale at a medium level. High indicates that the factors in direct sale play a major role in the consumer's buying

decision. Therefore it is very important for the salesperson and the company to take these factors into account when developing the sales strategy.

Figure 4.1 Theoretical model

**The importance of factors involved in direct sale in relation to Chinese culture**



**4.3 Main questions**

Out of the ‘Theoretical model,’ figure 4.1, we set up twelve main questions. Based on these questions several subquestions were created and later tested in our survey. The aim of the survey was to find out if factors involved in direct sale play an important role when implementing a direct sale strategy in China. It also aims to see if the theoretical model is correct. The main questions will be presented below.

### Communication

In the interaction between a buyer and a seller a two-way communication is the basic and perhaps most important factor in the relationship building process. Communication is also the foundation for many of the other factors in the model.

Q1. *Is a two-way communication an important condition for the success of direct selling in China?*

### Commitment

It is very important for the buyer and the seller to fulfil their mutual expectations on the relationship outcome before commitment can begin to develop. High commitment is likely to lead to higher sale outcome and re-purchase.

Q2. *Is mutual commitment between the buyer and the seller an important condition for the success of direct selling in China?*

### Trust

In the Chinese business culture trust plays a crucial role and takes longer time to develop than in any other culture. If mutual trust does not exist between the two counterparts they will probably not make a deal.

Q3. *Is mutual trust in the buyer-seller relationship an important condition for the success of direct selling in China?*

### Collective

Chinese people see themselves as a member of a group rather than individuals. Therefore their contact networks are large and information travels fast within the network. This is a great advantage for direct selling since it can make use of this network to spread information and sell products.

Q4. *Is a collective behaviour an important condition for the success of direct selling in China?*

### Friendship

Chinese are more apt to buy products from their friends with the belief that it will favour and maintain their friendship. For this reason it is thought to be beneficial for direct sale.

*Q5. Is a friendship relation an important condition for the success of direct selling in China?*

### Empathy

When a seller can read and understand a consumer's need, business is more likely to occur. If the seller shows empathy towards the customer, it is easier to provide the right service and to avoid conflicts.

*Q6. Is it important that the seller shows empathy in order to succeed with direct selling in China?*

### Respect

Respect for other individuals is important to achieve long lasting relationship. To gain respect from the buyer it is important for the seller to adopt a co-operative selling approach.

*Q7. Is respect in the buyer-seller relationship an important condition for the success of direct selling in China?*

### Conflict avoidance

In Chinese culture it is important to maintain social harmony in any situation, as Chinese people are afraid of losing 'face'. For this reason they try to avoid conflicts. Looking at the attitude towards different negotiations, such as price negotiations, we can get an indication of their conflict perception.

*Q8. Is it important to avoid conflicts in order to succeed with direct selling in China?*

### Loyalty

Chinese people see loyalty as the foundation of a long lasting relationship. Before loyalty can be developed they need to gain trust from each other, but once this is created it will last for a lifetime.

*Q9. Is loyalty an important condition from the consumer's perspective for the success of direct selling in China?*

### Functionality

Functionality is considered to be one of the most favourable attributes of direct selling and allows a close relationship with the customers. Functionality of direct selling allows the Chinese consumer to access products in a more convenient way.

*Q10. Do Chinese consumers believe functionality is an important condition for the success of direct selling in China?*

### Behaviour

The behaviour of the salesperson has to fulfil the buyer's expectation before trust, commitment and loyalty can begin to develop. It is therefore crucial to behave in the right way to succeed with direct selling in China.

*Q11. Is the overall behaviour of the salesperson an important condition for the success of direct selling in China?*

### Home Party

Home party selling is a way of direct sale where face-to-face contact provides opportunities for social interaction and this is the main strategy of Oriflame.

*Q12. Is home party selling a good implementation strategy when introducing direct selling in China?*

# Chapter 5

## Empirical Method

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*In the following chapter the empirical method will be introduced. Research strategy, sample and limitations will be discussed, followed by an analysis of the questionnaire and response rate. Finally, a discussion about reliability, validity, criticism of methodology and generalisability is presented.*

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### **5.1 Research Strategy**

The purpose of this dissertation was to create a model, which shows how important the factors involved in direct sale are in China. With this in mind we have decided to conduct a deductive research, which means that we went from theory to data. We started by doing a literature review of the two subjects, direct sale and Chinese culture, and then we selected emphasised factors involved in direct sale in order to create a model. We used this model to set up a number of main questions (Chapter 4) and tested them by using a survey. Due to the case study of Oriflame, home party selling is included as one of the factors. In order to evaluate the questions an empirical study was conducted, in the form of a survey. The survey consisted of 31 subquestions.

Since we created our model based on existing theories and research, we had more need for the kind of information gained through a survey. The survey strategy is associated with the deductive research approach and allows the collection of a large amount of data from a sizeable population in a highly economical way. A survey strategy gives researchers more control over the research process and it allows easy comparison (Saunders *et al.*, 2003). Furthermore, a survey was also a good choice concerning the time and the financial constraints associated with a candidate dissertation.

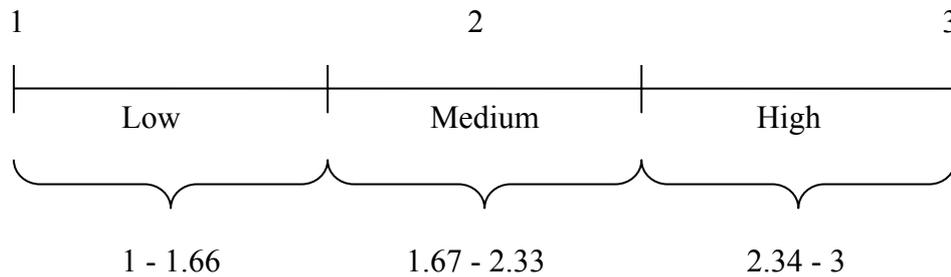
Our survey was conducted through a questionnaire. Before we used the questionnaire to collect data we pilot tested it. The purpose of the pilot test was to refine the questionnaire so that respondents would have no problems when answering the questions. The pilot test also made sure that there would

be no problems in recording the data. Furthermore, the pilot test functioned as an assessment of the questions' validity and reliability (Saunders *et al.*, 2003). The pilot test went well and no major changes had to be made in the questionnaire. Furthermore, we had a deadline to keep and with the time constraint that followed we found it sufficient to test the questionnaire on only 5 persons.

There are many different kinds of questionnaires and our survey was conducted through a self-administered questionnaire. We delivered the questionnaires by hand and collected them later. The respondents could remain anonymous and they were unable to modify the questionnaire. We knew in advance that all the respondents suited our research. They were all Chinese residents and all present participated. In the questionnaire a short explanation of our study was given and the questions were kept short and simple to make it easy for the participants to answer.

We analysed the result by looking at the mean of each subquestion. In the questionnaire we had a scale from 1 to 7 (1=strongly disagree and 7=strongly agree), to allow the participants to take position in the questions. In chapter 6, 'Analysis of the survey,' we chose to interpret values between 1 to 3 as of low importance, 4 as of medium importance and 5 to 7 as of high importance. Instead of getting several levels of low and high importance we converted the scale to only include one level of low and high importance in order to get a clearer view over the result. We gave the new scale values 1 to 3 (low to high). In this new scale we divided the degrees of importance into three groups (low, medium and high) to make it easier to interpret the values (figure 5.1).

Figure 5.1 Explanation of the scale



The first group, low, includes means from 1 to 1.66. This group indicates that the factors involved in direct sale have no or little influence on the consumer's buying decision. The second group, medium, includes means from 1.67 to 2.33 and shows that the consumers perceive the factors involved in direct sale at a medium level. However, values in the top range of the medium group (above value 2) are still important since they are close to high. The last group, high, includes means from 2.34 to 3. This indicates that the factors involved in direct sale play a major role in the consumer's buying decision.

When we had analysed the subquestions we calculated the overall mean (mean of mean) of the subquestions. By doing this it was possible to show the average importance of each factor. The overall mean included all the subquestions related to each main question, which enable us to answer the twelve main questions. In this way we were able to see how the Chinese feel about the different factors.

In order to see if our model may be useful in real life we have chosen to include a case study of Oriflame. Our purpose was to get in-depth interviews with the responsible for new markets at Oriflame. With the in-depth interviews we hoped to gain knowledge about Oriflame's strategy when entering the Chinese market and to see how Oriflame considered the cultural aspects. By analysing Oriflame's strategy we would be able to see if our model may provide the company with any complementary information. We would then be able to see how our model may act as guidance for the

company. However, Oriflame did not want to assist us with any information due to the fact that it is still at the planning stage. This was a major setback for our analysis of the case study. Therefore we had to base our case study on secondary data. Since we did not get any specific details on how they were planning to adapt their strategy to better suit the Chinese market the case study lost its depth and only considered Oriflame's global strategy.

## **5.2 Sample**

Since our aim was to investigate direct sale in China, naturally our population were Chinese people. Due to the various limitations, such as geographical, economical, time, etc. we had to create a sample group. Our sample group consisted of the Chinese exchange students currently studying at Kristianstad University.

Since a probability sample requires a sampling frame, which should be a complete list of all the cases in the population from which the sample would be drawn, a probability sampling method was impossible for us to use. Instead we had to choose a non-probability sampling method. Non-probability sample means that the probability of each case selected from the population is not known and it is impossible to answer research questions that require you to make statistical inference about the characteristics of the population (Saunders *et al.*, 2003). We used a type of non-probability sampling method known as *purposive sampling* which enabled us to select cases that would best allow us to answer our research questions and meet our objectives. A great advantage with the non-probability sample is that it increases the chance to find respondents that can be of help in the research since the researchers have control over who will be a part of the sample. However, a non-probability sampling makes it inappropriate to generalise and to draw conclusions about all Chinese.

### **5.3 Limitations**

The research has some limitations. Our sample group was limited to the (75) Chinese exchange students; studying at Kristianstad University at the time this study was conducted. We were able to get in touch with almost all of them (71) and they were all willing to participate. To be able to get people to answer the questionnaire we had to limit the number of questions, since too many questions may act as a deterrent for the participants and lead to a lower response rate. We decided to exclude an analysis regarding the differences in gender and age, as this kind of analysis will not be useful to achieve our objective. Our dissertation is meant to present a general model over the Chinese population and is not meant to look at specific variables such as gender and age. We also had to consider our financial constraints when conducting the empirical study.

### **5.4 The Questionnaire**

To test our model and to collect the information needed to analyse our objective we chose to use a survey. As we have mentioned in the method chapter, surveys are often associated with a deductive approach and carried out by using a questionnaire. A questionnaire is an easy and economical way of gathering large amount of data. However, there are some risks when using a questionnaire, for example, the risk that the participants answer without thinking the question through, or that the questionnaire is badly made so that the answers not really correlate with the research objective. For these reasons the wordings of the questions have to be carefully considered and the answers independently analysed; one should do everything to avoid misunderstanding and misinterpretation.

Our questionnaire consists of 31 questions, divided into five areas. First we asked questions about social interaction, which we did to investigate if Chinese consumers were collectivists or individualists. The first area also looked at the functionality of direct selling. Thereafter we asked questions about involvement in the shopping process. The third and fourth part looked at the seller and his/her interaction with the buyer, followed by the fifth and last area concentrated on direct sale. All of our 31 questions in the questionnaire

were closed, which means that we provided a number of alternative answers to the questions from which the respondents were instructed to choose (Saunders *et al.*, 2003). We also had a question regarding the respondents' home province in order to see geographical dispersion among the participants. After our closed questions we had a section of list questions, which offered the respondents a list of alternatives of which they could choose those applicable (Saunders *et al.*, 2003). This section looked at important attributes in direct sale compared to traditional sale. This section will be used in our case study of Oriflame. Further, our 31 questions were all scale questions. When using scale questions the respondents are asked to answer a question by ticking a scale (Dahmström, 1996), e.g. between 1=strongly disagree and 7=strongly agree. This way of scaling is called Likert-style rating. Our research was conducted in Sweden at Kristianstad University on Chinese exchange students. As they are studying here with English as their education language we chose to have the questionnaires in English. We tried to keep the language simple to avoid any difficulties for the Chinese students to understand the questions and to increase the probability of correct answers. We also let our tutor and our English teacher check and advice us about the formulation of the questions before handing them out.

### **5.5 Response Rate**

It is important to get a high response rate to be sure that the sample group represents the population (Saunders *et al.*, 2003). In our research we were limited to the 75 Chinese exchange students at Kristianstad University, which makes our study non-representative for the Chinese population. Out of the 75 Chinese exchange students 71 of them answered our questionnaire. None of the present Chinese refused to take part in the research, the four Chinese students that did not participate were all absent.

Table 5.1 Questionnaire Response

	Individuals	Percent
Total number of individuals in sample group	75	100
Total number of responses	71	95
Unreachable	4	5
Active response rate	71	95

The active response rate is the total number of responses divided with the total number in sample minus the unreachable (Saunders *et al.*, 2003). In our research the active response rate was 95%. We had a high response rate but it cannot be emphasised enough that the sample group is too small to represent the entire Chinese population. Hopefully, the sample size is large enough to give some indication of how the Chinese culture interacts with a direct sale strategy.

### 5.6 Reliability

Saunders *et al.*, (2003) explain that there can be four threats to reliability: subject or participant error, subject or participant bias, observer error and observer bias. It can be said that reliability in the data exists if studies or observations at different occasions yield the same result even if made by other researchers or observers (Saunders *et al.*, 2003).

In our case a participant error may have occurred because the Chinese in our survey are exchange students here in Sweden. They might have answered the questionnaire only to be polite or because they were happy to be here, therefore their mood at the time could have affected the answers. Participant bias is when the respondents answer the questions in the way they think a boss or an interviewer wants them to answer. We tried to exclude this error by guaranteeing anonymity. The third threat, observation error, may occur if many observers are involved and use different approaches to eliciting answers. By using a questionnaire with closed questions we eliminated this type of error. The last threat, observer bias, is about using different

approaches to interpreting the replies. We had closed questions and did all the interpretations in the group, which made our interpretation concordant.

### **5.7 Validity**

Reliability is crucial to achieve a high validity in a study. Validity examines if you idealistically, with questions or observations, measures what you really wants to measure (Dahmström, 1996). High validity is associated with a good research, but there is always a risk that a question is misleading or that it is wrongly formulated. One cannot be sure that the questions measure what one wants them to measure. This type of error, which occurs when for example using irrelevant questions, is called systematic error (Saunders *et al.*, 2003). Another issue that can affect the validity is the choice of factors. The result from our survey failed to show any significant variance between the twelve factors in our model, this could be because of the formulation of the questions and that we did not include any negative factors. This might have given a narrow picture of the result.

Operationalisation has a major impact on the validity and it is about translating theoretical concepts into measurable variables (Dahmström, 1996). For example, we wanted to test the importance of direct sale factors in relation to Chinese culture. If we did not do the translation with care the result could be misleading due to the misunderstanding of the concepts, which further might be a reason for the small variance between the factors in the model.

### **5.8 Generalisability**

Generalisability is according to Saunders *et al.*, (2003) referred to as external validity. Generalisability is whether the findings can be equally applicable if some of the research settings are changed. The purpose of a study is often to generalise the result to a larger population. If the sample group is not comparative to the total population this generalisation will be wrong because of low reliability and validity. We only conducted research on the Chinese exchange students at Kristianstad University, which almost all came from the same province; this makes the population too small and narrow to enable generalisation.

## **5.9 Criticism of methodology**

We wanted to identify and investigate factors involved in direct sale and put them in relation to Chinese culture. We started with a literature review on direct selling and Chinese culture on which we based our model. Our model is meant to show how important each of the factors is for direct selling in China. However, if the literature is based on non-reliable sources this might lead to a creation of a deceptive model. We have tried to avoid this error by looking up the primary sources.

The factors in direct sale, which we have included in the model, are the ones that were most emphasised in the literature. It could be interesting to get indications if we had chosen the right factors or if different or additional factors should be part of our model. If we instead had used in-depth interviews with the participants it would be easier to get indications if we had chosen the right factors in our model. The limited number of factors might have prevented us from creating a complete model. The result from our survey failed to show any significant variance between the twelve factors in our model, this could be because of the formulation of the questions and that we did not include any negative factors.

Due to the small sample size (75) we cannot draw any generalisation of the whole Chinese population. The conclusions drawn will only be applicable for our specific sample group. Another disadvantage with our sample group is that almost all of the participants come from the same province in China. For these reasons a wider research on the subject needs to be conducted. Language could also have led to errors in our research. Since the survey was written in English, which is not the Chinese native language, they could have misinterpreted the questions. The questions could have been wrongly designed and our interpretation of the result could have been inaccurate which could have given us inaccurate statistics.

In the case study of Oriflame, it would have been interesting to look at differences in gender, since cosmetic is more aimed towards women. This kind of research is not relevant for the purpose of our dissertation therefore we have chosen to exclude gender and age. Our case study of Oriflame was only based on secondary data, which made the result of our case study less valuable. We were only able to analyse Oriflame's global strategy instead of its specific strategy adapted for the Chinese market.

# Chapter 6

## Analysis of the Survey

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*In the following chapter an analysis of the survey will be presented, analysed as well as criticised. We examined the different factors in direct selling which are included in our model. We also analysed the main questions and their subquestions for each factor in relation to Chinese culture.*

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### **6.1 Introduction**

We analysed the data from our survey by using the statistical computer program SPSS. The computer program helped to calculate the mean values for each of the subquestions. We then calculated the overall mean (mean of means) of those subquestions that were related to each of the main questions, which enabled us to answer the twelve main questions. In this way we were able to see how the Chinese feel about the different factors involved in direct sale. We gave the new scale values 1 to 3 (low to high). In this new scale we have divided the degrees of importance into three groups (low, medium and high) to make it easier to interpret the values (figure 5.1). The first group, low, includes means from 1 to 1.66. This group indicates that the factors involved in direct sale have no or little influence on the consumer's buying decision. The second group, medium, includes means from 1.67 to 2.33 and shows that the consumers perceive the factors involved in direct sale at a medium level. However, values in the top range of the medium group (above value 2) are still important since they are close to high. The last group, high, includes means from 2.34 to 3. This indicates that the factors involved in direct sale play a major role in the consumer's buying decision. With these mean values we created a new model, figure 6.1, which showed the degree of importance for each of the factors in direct sale in relation to Chinese culture.

We decided to exclude an analysis regarding the differences in gender and age, as this kind of analysis will not be useful to achieve our objective. Our dissertation is meant to present a general model over the Chinese population. It is not meant to look at specific variables such as gender and age. In the

following sections we will analyse each of the main questions based on the result from the subquestions in our survey.

### 6.1.1 Communication

The first main question we set up was: *Is a two-way communication an important condition for the success of direct selling in China?* We tested this main question by asking the subquestions in the table below. With the two first questions, 10 and 14, we hoped to find out how important it is for the customer to receive relevant information from the salesperson and if he/she showed interest in the information given. With the next two questions we wanted to find out how verbal and non-verbal communication affected the buying process. Furthermore, the last question, 27, looks at both the knowledge and the communication skill of the salesperson.

Table 6.1

	Overall mean
Q1. <i>Is a two-way communication an important condition for the success of direct selling in China?</i>	<b>2.36</b>
	Mean
10. I always listen to the information the seller has to give	1.80
14. It is important to me that the seller is knowledgeable about the products	2.72
24. Verbal communication (language) between the seller and the buyer is crucial in the buying process	2.54
25. Non-verbal communication (body language) between the seller and the buyer is crucial in a buying process	2.08
27. I think the seller in direct marketing should be able to promote his/her products	2.66

The overall mean in table 6.1 gives the answer to question 1. The outcome of the questions (2.36) shows that communication is of relative high importance. Question 10 has the lowest mean of the questions, which indicates that buyers seldom listen to all the information the seller has to give. The questions

related to verbal communication have a higher mean than the question about non-verbal communication. This indicates that the buyer is more open to verbal arguments than to non-verbal. Almost all the questions related to the main question were above the medium level, which indicates that the salesperson should strive for a two-way communication with its customer. The result confirms the theoretical view found in the literature about the importance of communication in direct selling.

### 6.1.2 Commitment

The second main question we set up was: *Is mutual commitment between the buyer and the seller an important condition for the success of direct selling in China?* We tested this main question by asking the subquestions in the table below. The first questions, 6 and 7, were to find out how engaged and committed the Chinese are in their own shopping. By disagreeing it shows that commitment is not important to them and that they would not care if someone else did their shopping. Questions 8 and 9 also show how committed the customer is in the buying process. Impulsive buyers do not look for any information before a purchase and therefore a mutual commitment rarely exists. The last question explains how the customer perceives commitment from the seller.

Table 6.2

	Overall mean
Q2. <i>Is mutual commitment between the buyer and the seller an important condition for the success of direct selling in China?</i>	<b>2.47</b>
	Mean
6. I am always involved in my own shopping	2.25
7. I need to decide on my own what to buy	2.76
8. I rarely shop anything on an impulse	2.30
9. I take my time to search for all necessary information before a purchase	2.31
18. It is important to me that the seller shows commitment towards me	2.73

The overall mean in table 6.2 gives the answer to question 2. The outcome of the questions (2.47) shows that a mutual commitment is of high importance. The question about seller's commitment towards the buyer was as high as 2.73, and all the other questions were at the top range of the medium level or above. Question 18 indicates that for a customer it is important that the salesperson shows commitment. The overall result confirms the theoretical view found in the literature about the importance of mutual commitment in direct selling.

### 6.1.3 Trust

The third main question we set up was: *Is mutual trust in the buyer-seller relationship an important condition for the success of direct selling in China?* We tested this main question by asking the subquestions in the table below. The two questions asked in the survey about trust are related to the sincerity of the salesperson. The questions serve to answer if the buyer thinks he/she was going to receive the product as promised and if he/she believes that direct sale is related to genuine products.

Table 6.3

	Overall mean
Q3. <i>Is mutual trust in the buyer-seller relationship an important condition for the success of direct selling in China?</i>	<b>2.06</b>
	Mean
29. I never believe a seller in direct marketing will sell fake goods	2.15
30. I believe direct selling is a very secure way to buy products	1.96

The overall mean in table 6.3 gives the answer to question 3. The outcome of the questions (2.06) shows that trust is of medium importance. Both questions had a mean value close to 2, which disagrees with the theoretical view found in the literature. The result shows that trust does not seem to be of high importance, which the literature suggested.

#### 6.1.4 Collective

The fourth main question we set up was: *Is a collective behaviour an important condition for the success of direct selling in China?* We tested this main question by asking the subquestions in the table below. With questions 1 and 2 we hoped to find out the customers' attitude towards collectivism. If they have a collective attitude they are more likely to have a positive view on direct sale and sales directed to groups, e.g. home parties. The last of the three questions asked aims to see if Chinese have a close and collective relationship with their friends.

Table 6.4

	Overall mean
<i>Q4. Is a collective behaviour an important condition for the success of direct selling in China?</i>	<b>2.44</b>
	Mean
1. I prefer to work in a group rather than on my own	2.45
2. I believe team work gives the best result	2.69
5. I like when my friends help me buy products	2.17

The overall mean in table 6.4 gives the answer to question 4. The outcome of the questions (2.44) shows that collectivism is an important part of the Chinese culture. Collectivism can benefit direct sale since the contact network tends to be large and information travels fast within the network. One question was at the top range of the medium level and the rest above, which agrees with the theoretical view found in the literature.

#### 6.1.5 Friendship

The fifth main question we set up was: *Is a friendship relation an important condition for the success of direct selling in China?* We tested this main question by asking the subquestions in the table below. Both questions aim at finding out if a friendship between the buyer and seller is advantageous in the buying process. We want to find out if customers prefer to buy from a friend instead of from an unfamiliar person.

Table 6.5

	Overall mean
Q5. <i>Is a friendship relation an important condition for the success of direct selling in China?</i>	<b>2.07</b>
	Mean
21. I am more likely to buy products from a seller who I feel has a social connection with me	2.21
22. I feel more comfortable to buy products from a friend	1.93

The overall mean in table 6.5 gives the answer to question 5. The outcome of the questions (2.07) indicates that friendship between the seller and the buyer is of medium importance for the success of direct selling. The result of question 22 suggests that Chinese are less comfortable buying products from a friend. It could be related to the fact that they might feel pressured to buy products against their wishes, only to be respectful towards their friend. The pressure to prevent humiliation and save ‘face’ of the seller is another possible aspect. This view contradicts the literature regarding the high importance on how friendship can promote direct sale in China.

#### 6.1.6 Empathy

The sixth main question we set up was: *Is it important that the seller shows empathy in order to succeed with direct selling in China?* We tested this main question by asking the subquestions in the table below. Both questions aim at finding out if it is important that the seller shows empathy and how it affects the customer’s buying decision.

Table 6.6

	Overall mean
Q6. <i>Is it important that the seller shows empathy in order to succeed with direct selling in China?</i>	<b>2.45</b>
	Mean
15. It is important to me that the seller understands my needs	2.62
20. I am more likely to buy products from a seller who shows empathy for me	2.27

The overall mean in table 6.6 gives the answer to question 6. The outcome of the questions (2.45) indicates that empathy from the seller plays an important role for the success of direct selling. The result to question 15 suggests that Chinese as any other customers believe it is important that the seller understands their needs. Question 20, which has a lower mean than question 15, indicates that the empathy of the seller may influence the customer to purchase. In accordance with the literature table 6.6 confirms the importance of empathy in the Chinese culture.

### 6.1.7 Respect

The seventh main question we set up was: *Is respect in the buyer-seller relationship an important condition for the success of direct selling in China?* We tested this main question by asking the subquestions in the table below. We asked the questions 13 and 17 in the hope of finding out how customers look at the importance of respect, from the seller. Question 26 deals with the concept of losing ‘face.’ We wanted to know if Chinese customers would buy products only to prevent humiliation for the seller.

Table 6.7

	Overall mean
Q7. <i>Is respect in the buyer-seller relationship an important condition for the success of direct selling in China?</i>	<b>2.39</b>
	Mean
13. It is important to me that the seller gives me full attention	2.48
17. It is important to me that the seller respects my wishes	2.89
26. I often buy products I do not want from a seller in order to prevent humiliation for the seller	1.80

All the questions together had an overall mean of 2.39, which points out that respect in the buyer-seller relationship, is an important condition for the success of direct selling in China. The questions 13 and 17 are of high importance and therefore play an essential part for direct sale in China. However, question 26 was at the bottom range of medium. This indicates that

Chinese customer rarely buy products from a seller only because they want to prevent humiliation for the seller. To gain respect from the buyer it is important for the seller to adopt a co-operative selling approach.

#### 6.1.8 Conflict avoidance

The eighth main question we set up was: *Is it important to avoid conflicts in order to succeed with direct selling in China?* We tested this main question by asking the subquestions in the table below. We asked the questions to find out the Chinese attitude towards price negotiation, how they perceive the appropriateness of negotiations and their own negotiation pattern.

Table 6.8

	Overall mean
Q8. <i>Is it important to avoid conflicts in order to succeed with direct selling in China?</i>	<b>2.19</b>
	Mean
11. I always negotiate about the product's price before a purchase	2.03
12. The outcomes of the negotiations are always to my favour	2.17
28. I believe price negotiations in direct selling is very appropriate	2.38

The overall mean in table 6.8 gives the answer to question 8. The outcome of the questions (2.19) indicates that conflict avoidance plays a fairly important role for the success of direct selling. The Chinese value social harmony greatly, therefore they try to avoid conflicts. The mean in question 11 and 12 was at the medium level of importance. It shows that Chinese people rarely negotiate about the prices and that negotiations almost never favour them. The last question, 28, has a higher mean and indicates that the Chinese have a more positive belief about price negotiations in direct selling. From the sellers' point of view this attitude may not favour them.

### 6.1.9 Loyalty

The ninth main question we set up was: *Is loyalty an important condition from the consumer's perspective for the success of direct selling in China?* We tested this main question by asking the subquestions in the table below. We asked the questions to find how important loyalty is for the customer and how this factor affects the customer's buying decision.

Table 6.9

	Overall mean
Q9. <i>Is loyalty an important condition from the consumer's perspective for the success of direct selling in China?</i>	<b>2.68</b>
	Mean
16. It is important to me that the seller shows loyalty towards me	2.70
23. I am more likely to buy more products from a seller who shows loyalty towards me	2.65

The overall mean in table 6.9 gives the answer to question 9. The outcome of the questions (2.68) indicates that loyalty plays a crucial role for the success of direct selling. Loyalty has the highest importance of all the factors in our model. The mean in both questions has a high level of importance. It shows that Chinese people value the loyalty from the seller as one of the most important factors and are more likely to buy products from a seller who shows loyalty. The result verifies the research's view on the importance of loyalty.

### 6.1.10 Functionality

The tenth main question we set up was: *Do Chinese consumers believe functionality is an important condition for the success of direct selling in China?* We tested this main question by asking the subquestions in the table below. Question 3 serves to show the Chinese attitude towards direct selling compared to traditional selling. We asked question 4 to find out how Chinese customers look at the idea of buying for each other. This kind of 'web' buying favours direct sale greatly. In this way the customer network will expand rapidly and effectively.

Table 6.10

	Overall mean
Q10. <i>Do Chinese consumers believe functionality is an important condition for the success of direct selling in China?</i>	<b>2.27</b>
	Mean
3. I prefer to shop at home rather than in shops	2.34
4. I always help my friends to buy products	2.20

The overall mean in table 6.10 gives the answer to question 10. The outcome of the questions (2.27) is at the top range of the medium level of importance. This shows that functionality plays an important role although it is shown not to be one of the most important factors. With one mean on high and the other on the top range of medium level, it indicates that Chinese consumers like to help their friends to buy products and they like the convenience of shopping at home. Functionality also provides the customers with social interaction. The outcome verifies the research's view on the importance of functionality.

#### 6.1.11 Behaviour

The eleventh main question we set up was: *Is the overall behaviour of the salesperson an important condition for the success of direct selling in China?* We tested this main question by asking the subquestion in the table below. Behaviour is a very broad term where many factors are involved. We wanted to get an overall picture of how the Chinese consumers perceive the sellers' overall behaviour.

Table 6.11

	Overall mean
Q11. <i>Is the overall behaviour of the salesperson an important condition for the success of direct selling in China?</i>	<b>2.51</b>
	Mean
19. The seller's overall behaviour is very important to me	2.51

The overall mean in table 6.11 gives the answer to question 11. The outcome of the question (2.51) shows that the overall behaviour of the salesperson plays an important role for Chinese consumers.

#### 6.1.12 Home Party

The last main question we set up was: *Is home party selling a good implementation strategy when introducing direct selling in China?* The reason for this question is mainly our case study of Oriflame. We hoped to find out if home party selling is a possible selling strategy in China and whether the consumers could see themselves arranging home parties.

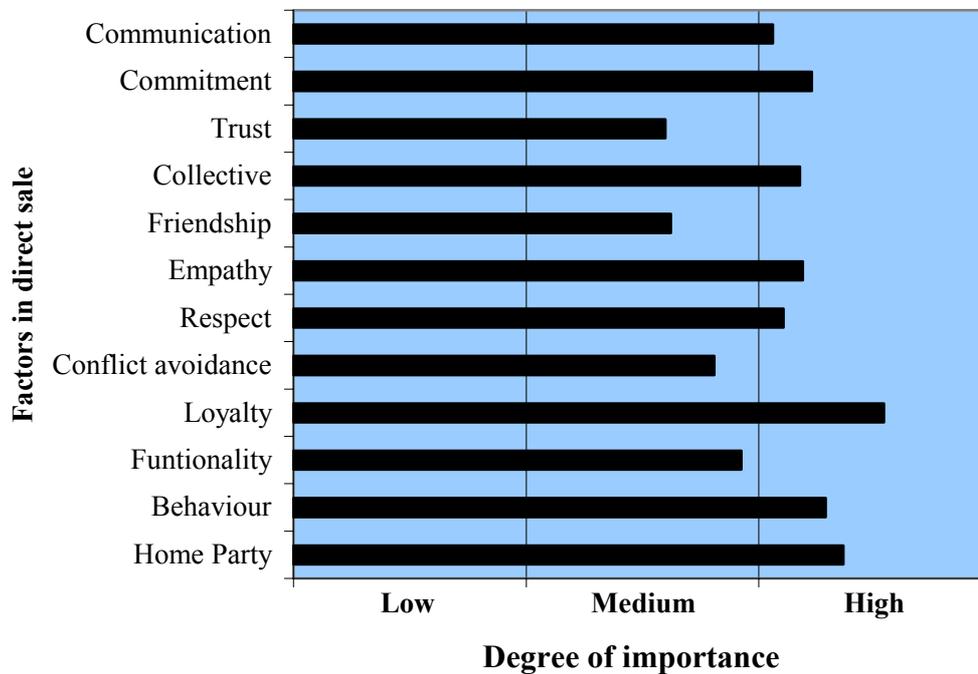
Table 6.12

	Overall mean
Q12. <i>Is home party selling a good implementation strategy when introducing direct selling in China?</i>	<b>2.56</b>
	Mean
31. I could imagine myself arranging home parties	2.56

The overall mean in table 6.12 gives the answer to question 12. The outcome of the question (2.56) shows that Chinese consumers have a positive view on arranging home parties. This selling strategy might be a very successful tool for marketers who wish to enter the Chinese market

Figure 6.1 Adapted model

### The importance of factors involved in direct sale in relation to Chinese culture



### 6.2 Summary

We have now created an adapted model, figure 6.1, 'The importance of factors involved in direct sale in relation to Chinese culture,' based on the result of the survey. Our purpose with the model is to show how important each of the factors is in relation to Chinese culture. With the theoretical model, (figure 4.1) as a base we set up twelve main questions with various subquestions related to each of the factors in our model. We then used a survey in order to validate our model. A questionnaire was used and it was created so that it would answer our twelve main questions. The model shows the different degree of importance for each of the factors for direct sale in China. All of the factors in our new model are at the top range of medium level or at high level of importance. This supports our belief that all of the factors in our model play an important role for direct sale in China. However, trust, friendship, conflict avoidance and functionality showed to be of less importance compared to the other remaining factors. Loyalty was the factor,

which had the highest level of importance. It shows that Chinese people value the loyalty from the seller as one of the most important factors and are more likely to buy products from a seller who shows loyalty. The literature emphasised communication, commitment and trust as the most important factors. However, in our study trust received the lowest degree of importance. All the outcomes of the survey might have been affected by the limited number of questions asked on each of the different factors. The design of the questions and the small sample size might also have influenced the result.

In the next chapter we will use our gained experience to conduct a case study of Oriflame. It is a preliminary attempt to test our model to see if it can be useful in real life.

# Chapter 7

## Case Study - Oriflame

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*This chapter is based on available secondary data. We start with an introduction and a SWOT-analysis of the company followed by a comparison of direct selling versus traditional selling. At last, an analysis of the applicability of our model as well as a conclusion is presented.*

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### **7.1 Introduction**

Oriflame was founded in Sweden in 1967 by the two brothers Jonas and Robert af Jochnick and Bengt Hellsten. The parent company Oriflame International S.A. (OISA) was founded in 1972 and is the holding company of the international group, which manufactures and markets a complete range of skin care and cosmetics products (Oriflame branded cosmetics) and pharmacies (ACO Skincare) through direct sales. OISA became listed on the London Stock Exchange in 1982 (Oriflame, 2003).

Today the company has nearly 1.4 million sales consultants in more than 50 countries, which brings Oriflame directly to their customers. Personal contacts, relationships and friendliness mean that millions of customers put their trust in Oriflame. The business concept of Oriflame states that the company is willing to provide consumers with Swedish natural skin care and cosmetic products marketed through a direct sales system. The vision is to be recognised as a global marketer of Swedish natural beauty products, for the quality of its business operations and its commitment to investors, customers, distributors, employees and the environment (Oriflame, 2003).

To implement the direct sale system, Oriflame has used multi-level marketing (MLM), which is a distribution channel structure used world wide for the distribution of Oriflame branded products. Oriflame has chosen this subtype of non-store retailing for the recruitment of independent business people who act as distributors of their products. Direct sales business in the company's vocabulary is defined as 'providing business opportunity.' The compensation

of the distributors depends on the amount they personally have sold in the respective month as well as the performance of their entire group and the number of distributors below them in the hierarchy. Direct sale is an attractive source of additional income at least for people to whom any extra income is of vital importance. The strategy manual of Oriflame 'The Success Plan,' states that any person above the age of 16, who agrees not to use Oriflame network for distribution of products other than Oriflame cosmetics, can become an independent distributor of Oriflame products. They will conduct entrepreneurial activity in his/her own name and on his/her own account. The basic idea behind the multilevel network is to leave it open for anyone willing to join the system (<http://...5>).

The company recruits the first distributors, 'the founding members,' of the network in every country, and the rest are attracted 'sponsored,' by them. The person who has attracted a new member to the network in the company vocabulary is termed as sponsor. There are many layers in the distributor hierarchy: the distributor who has just entered the pyramid, his/her sponsors, sponsors of sponsors, their sponsors, senior distributors and directors. The composition of the scheme allows the sponsors to receive bonus for the attraction of a new distributor to the network. The larger the personal group of the sponsor, the larger the bonus he/she receives, since the bonus amount is calculated as a percentage from adjusted sales of a personal group. A considerable share of compensation for the higher-level distributors often comes, not from the actual sales, but instead from the attraction of new members to the network. Therefore, current distributors have a strong incentive to add as many members to the network below them as possible, and this in general corresponds to the philosophy of the company (Cirule *et al.*, 1996).

However, given the current level of understanding in the fundamental principles of market economy, lack of long-range thinking, and the willingness to arrive at easy cash fast, the business concept, home-party sales and sales to friends, colleagues and relatives, is neglected and violated. The local management seems to be powerless to change the situation, since

the core principle is that no limitation should be set to the attraction of new distributors and substantial penalties should be avoided except for extreme violations. The communication of information down the network led by the directors has received much attention. The management of Oriflame informs the directors, and they are supposed to communicate the information further and educate their substructure members (Cirule *et al.*, 1996).

Nevertheless Oriflame does not formally employ distributors and it could be worth considering their role in the success or failure of the company. These people are actually the sales force of the company, and the image of the company as a whole will in many cases depend on the attitude these people create. Their performance directly influences the financial position of the firm.

## 7.2 SWOT-Analysis

We have in the figure 7.1 below summarised the important factors related to Oriflame in a SWOT-analysis. The SWOT-analysis gives a quick overview of Oriflame's strategic situation. It consists of an evaluation of the company's internal strengths and weaknesses and its external opportunities and threats. The SWOT-analysis underscores the basic point that strategy must produce a good fit between a company's internal capability and its external situation (Kotler *et al.*, 2001).

Figure 7.1 SWOT-Analysis

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>Economy of scale</li> <li>Environmental friendly</li> <li>Close relationship with customers</li> <li>Functionality</li> <li>Personal demonstrations</li> <li>Established strategy</li> <li>Experience management</li> <li>Provision based salary (long-term)</li> <li>Local entrepreneurs</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>Unfamiliar brand and products</li> <li>Lack of first mover advantages</li> <li>Stressful environment (customer)</li> <li>Provision based salary (short-term)</li> <li>Limited supply</li> <li>Lack of internal communication</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Collective</li> <li>Serve additional customer group</li> <li>Diversify into related products</li> <li>Enter new markets and/or regions</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>New entrants</li> <li>Existing competitors</li> <li>Costly regulation requirements</li> <li>Recession</li> <li>Changing buyer's needs</li> <li>Adverse demographic changes</li> <li>Exchange rate</li> </ul>

From the SWOT-analysis we can draw the conclusions that Oriflame has many strengths. Oriflame has existed for many years and built up many factories all over the world, which gives the company economy of scale. The company's products are all made from natural ingredients and not tested on animals. This gives Oriflame an advantage in today's competitive society, where these factors play a major role. Oriflame works close to the market and its customers, which may create close and lasting relationships. The functionality of the home party selling leads to the convenience of buying in one's home where personal demonstrations may be favourable for the buyer. The customers get the information through a two-way communication. The experienced management has the knowledge on how to find the initial salespersons that know the local market. The provision based salary leads to willingness for the salespersons to build long and profitable relationship with high sales outcome and repurchases.

Oriflame has some weaknesses that it needs to be aware of before entering the Chinese market. Its products are unknown to the Chinese customers and therefore it has to start by building a strong brand image. Other existing companies are already working close to the Chinese market. The companies who sold products through direct sale before the prohibition are still on the market but are using a different way of distribution. When the prohibition is removed these companies can easily adapt their direct sale strategy again and gain the first mover advantages before Oriflame has even entered the market. Short-term profit thinking among the salesperson can destroy Oriflame's reputation and image. If they do not strive to build a relationship based on trust and commitment it will lead to lower sales outcome in the long run and no repurchase. An insufficiency with home selling is the limited supply and visibility of the products. Oriflame is only supplying its own brand and the salesperson cannot carry all the available products for demonstrations. Communication problems within the company lead to that the company's values would not be communicated in the right way. This will affect the long-term sales outcome since no lasting relationship is built with the customer.

The collective society in China is very beneficial for direct selling, since the network tends to be large and information travels fast. This can be a favourable opportunity for Oriflame that uses direct selling as its main strategy. Other opportunities for Oriflame are to find additional target groups. Oriflame can do this by diversifying into related products or by entering new markets and/or regions.

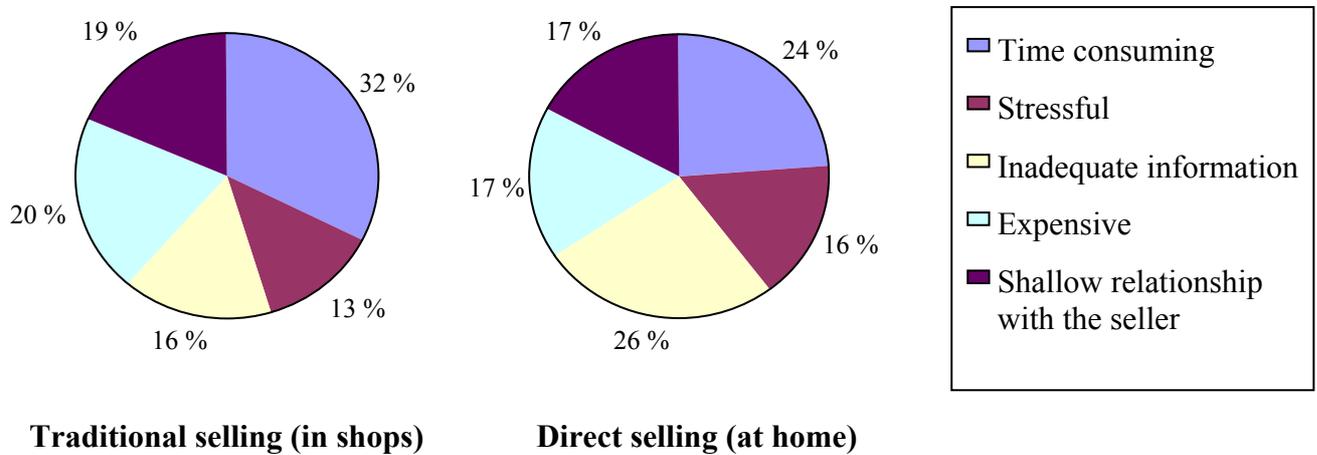
Major threats that Oriflame faces on the Chinese market are the existing competitors and the possibility for new entrants. Existing competitors have already built up a customer network and therefore gained first-mover advantages. Oriflame, as a second-mover has to concentrate on quickly gaining market shares and creating loyal and committed customers to compete with the competitors. Costly regulation requirements are likely to occur on the highly regulated Chinese market. The government often demands that a company has to make extensive investments in the country before getting permission to enter the market. Another possible threat can be a shift in buyer needs, e.g. if the customer no longer requires make-up a substantial part of Oriflame's business will go lost. An adverse demographic change may also threaten the company. In case of a recession the Chinese disposable income may be affected in a way that makes Oriflame's products unaffordable for the customers. Volatility in the exchange rate can lead to a shift in price, which can reduce/increase Oriflame's profit.

### **7.3 Direct selling versus traditional selling**

In the section below we have made a comparison between direct selling and traditional selling based on our survey of the Chinese exchange students at Kristianstad University. We will use the result to analyse Oriflame's strategy when implementing direct sale in China. We have in our survey conducted a comparison between direct selling (at home) and traditional selling (in shops). We asked the participants to tick the attributes they thought were applicable for each type of selling. In our comparison the following variables were taken into consideration: time consuming, stressful, inadequate information, expensive and shallow relationship with the seller.

Figure 7.2

**Comparison between direct selling and traditional selling**



From the figure 7.2 above we can see that the respondents believe that shopping in shops is much more time consuming and expensive than shopping at home. We believe that shopping at home can be less expensive since the consumer can be provided with different benefits, such as discounts. At the same time the price can be ‘perceived’ as lower in direct selling because the buyer is willing to pay more when the salesperson is already in one’s home.

Most consumers find traditional selling more time consuming since they usually go to more than one shop in order to be satisfied. The relationship they get with a seller through traditional selling is also perceived to be shallower compared to direct selling. Through direct selling the customer will probably get in contact with the same salesperson more than once. Therefore, a deeper relationship can be created between the buyer and the seller.

The respondents believe that direct selling does not provide them with adequate information and is more stressful compared to traditional selling. The customers may feel stressful because they feel that since they invited the salesperson they are required to buy something from him/her. The customers believe that they will get more adequate information through traditional selling. The reason behind this could be that they get the opportunity to

acquire information from different sources and can therefore compare and choose as they like. If they do not trust the specific salesperson in direct sale, they will not feel that he/she gives the right information.

#### **7.4 Applicability of the model in the case of Oriflame**

The twelve factors in our model, 'The importance of factors involved in direct sale in relation to Chinese culture,' will here be analysed in relation to Oriflame's strategy. We will go through the factors to see how Oriflame uses these factors when implementing its strategy on new markets.

The direct sales system in China will be introduced on a market that is not familiar with the brand and does not have an established perception of the company's products. Oriflame's distribution system will hopefully make the products more accessible to the consumers since they are working close to the target market. Oriflame will be one of the first legal and visible direct sales companies in China since 1988. Despite this fact it is not likely that it will get any first mover advantages since many companies already have used this strategy on the market before the prohibition. This could be a disadvantage for Oriflame since the first mover advantages helps to build the image and buyers tend to remain loyal to the first entrant. In Oriflame's strategy loyalty is build through close relations and friendship. Direct selling is a good way to meet and socialise with people.

Functionality of direct selling provides important benefits to consumers who enjoy an alternative to shopping centres and department stores. Consumers benefit from direct selling because of the convenience and service it provides, including personal demonstration and explanation of products, home delivery, and generous satisfaction guarantees. It also gives the opportunity for social interaction for the consumers. Oriflame uses the home party concept as its main distribution channel to reach customers. Although this sounds like a good concept it may at the same time be stressful for the customers. They may feel forced to buy products only because they have invited the salesperson.

The salesperson representing Oriflame has a provision-based salary; earnings are in proportion to efforts. The more committed the salesperson is towards Oriflame the more he/she will earn. A committed salesperson strives to build trust and loyalty with the customer to generate long-term relationship and repurchase. Therefore Oriflame should promote this kind of attitude among its sales representatives. However, if Oriflame does not promote this kind of thinking provision-based salary may lead to short-term profit thinking. The result will be lack of communication where Oriflame's values will not be communicated in the right way. This will affect the long-term sales outcome since no lasting relationship is built with the customer. This also indicates that the salesperson has little commitment and loyalty towards Oriflame and its customers.

Long and short-term thinking can also be related to conflict avoidance. A salesperson that thinks in the long run strives to solve conflicts in a fast and convenient way to maintain the relationship with the customer. Such a salesperson is also more likely to show empathy for the customer since he/she wants to develop a lasting relationship. A salesperson that thinks in short term might not respect the buyer and care about solving possible conflicts, which may affect Oriflame's reputation and image in a negative way. To prevent this to happen, Oriflame should through proper education and training communicate its company values. The company should also make sure that the salespeople realise that they have more to gain economically from long-term thinking.

Chinese people are regarded as collective, which is beneficial for Oriflame. Their contact networks are larger than in an individualistic culture and information travels faster within the network. This will boost the effect of word-of-mouth, which is an effective way for Oriflame to market itself.

A way for a company to deal with the cultural differences is to hire local salespeople, which is adopted by Oriflame. Local salespersons know the culture, since they live close to the market and its customer. Local salespersons already have the knowledge about how to behave and interact

with the Chinese customers, which makes it easier for them to develop a friendship relation with the customers. If Oriflame had to employ non-local salespersons it would be forced to educate and train its salespersons in Chinese culture and etiquette before it can start its business.

### **7.5 Conclusion**

We have now presented Oriflame's global strategy and analysed the company with a SWOT-analysis. The applicability of our model in the case of Oriflame was also analysed. In this section we will present a conclusion and answer our fourth research question: How appropriate is Oriflame's direct sale strategy for the Chinese market considering the culture?

In our model loyalty is emphasised as the most important factor, which means it is crucial to take this into consideration when implementing a strategy in China. In Oriflame's strategy, loyalty is built through close relations and friendship, which is an important part in the Chinese collective society.

Oriflame uses the home party concept as its main distribution channel to reach consumers in their homes or the homes of friends, at their workplace and similar places away from shops. A disadvantage for the customers can be that they feel forced to buy products only because they have invited the salesperson that often is a friend. At the same time home party selling fits well into the Chinese collective society, this is advantageous for Oriflame. Our survey shows that the price may be perceived as lower when the consumers buy products at home. The relationship to the salesperson is also perceived as closer when buying products through direct sale. Friendship is highly valued among the Chinese people and should not be neglected. Although it received a rather low degree of importance compared to the other factors in our model, friendship may contribute to the expansion of Oriflame's sales network. A committed salesperson that strives to build a long lasting friendship relation with his/her customers is also more likely to show empathy for the customers.

The salesperson's provision based salary can both be an advantage and disadvantage for Oriflame. A salesperson that is striving for long-lasting relationships and long-term profit tries to build trust, commitment and loyalty towards the customer. He/she is also more likely to communicate the right company values to the customers. On the other hand if a salesperson has short-term profit thinking Oriflame's value will not be communicated in the right way. This will affect the long-term sale since no lasting relationship is built with the customer. This is a problem that Oriflame still need to solve in order to secure its future cash flow. Short-term thinking also means that a salesperson might not respect the buyer and care about solving possible conflicts, which might lead to a bad reputation for the company.

An advantage for Oriflame is that it uses local salespeople that know the culture, as they live close to the market and its customer. Local salespeople already have the knowledge about how to behave and communicate with the Chinese customers. This is also good since Oriflame uses the functionality of direct selling to provide important benefits and close relationships with the customer.

All the twelve factors in our model supported Oriflame's strategy. It is crucial for Oriflame to train and educate the salespeople to think long-term. If Oriflame considers its weaknesses and emphasises the importance of building and maintaining long lasting customer relationship its strategy can be successfully implemented when entering China.

# Chapter 8

## Conclusions

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*The conclusions are presented. The dissertation is summarised and the applicability of the model is discussed as well as modifications, future research, practical implication, and criticism and discussion.*

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### **8.1 Summary of Dissertation**

Our objective was to identify and investigate factors involved in direct sale and put them in relation to Chinese culture. Direct sale is one form of direct marketing, which can include door-to-door, office-to-office, home party selling, etc. It is an effective way for companies to build up customer relationships on new markets. Direct sale is referred to as a form of marketing of consumer goods and services directly to consumers. It is in places away from shops, such as in their homes, the homes of friends, workplaces, etc., where explanation or demonstration of the goods and services is provided by a salesperson. Effective companies are taking a *customer-oriented approach* to direct sale. This means that the company is training salespeople to be able to identify customer needs and to find solutions. For a salesperson to be able to do business with people from various cultures, he/she needs to understand the differences in their values and in their consumer needs. Culture is a broad term; it can include customs and beliefs, art, way of life and social organisation of a particular country or group. It is considered to be the driving force behind human behaviour. Therefore salespersons need to be aware of these cultural differences when targeting their products and services.

Cultural values have implications for marketing communication and direct selling activities. The Chinese people are regarded to be highly collective which means they see themselves as member of a group rather than as an individual. Direct selling is therefore an important communication tool for the sellers in order to belong to the in-group and will fit well in collectivist societies. However, the importance for the Chinese to belong to an in-group

may result in purchase against their will. In the long run this may result in a conflict affecting the relationship in a negative way.

Consumers look at Chinese salespeople as individuals rather than organisations. Therefore, communication between two parties becomes crucial in a business process. A buyer is sensitive to verbal and non-verbal communication, which interacts with consumer's experience and expectation about the salesperson. Other cultural factors, which may influence the acceptance of direct selling, are such as Chinese belief in modesty and self-effacement. These two reflect the actual selling situation as a preference of helpful and friendly services rather than aggressive sales tactics.

In Chinese culture trust between the people outside the family, the network of group, need more time than in other cultures to cultivate. Therefore Chinese people need much time to test their counterparts before getting loyal. The behaviour and outcome of the relationship between the buyer and seller have to fulfil expectations before trust and commitment can begin to develop. It has been shown that respect for other individuals is important to achieve long lasting relationships. When the salesperson is adopting a co-operative selling it will be easier to gain respect and trust from the buyer. The salesperson can through empathy read the customers' need and provide service accordingly. At the same time the salesperson will avoid a possible conflict situation and gain trust and respect from the customers.

The Chinese cultural heritage emphasises the maintenance of harmonious relationship with their friends. Chinese are more apt to buy products from their friends with the belief that it will favour and maintain their relationship. A strong friendship between the salesperson and the consumer will create a long-term relationship consisting of trust, commitment and loyalty. A salesperson has the most direct customer contact and a firm's relationship marketing strategies is highly dependent on its salespersons. Therefore the behaviour of the salespersons is crucial in the relationship building process.

Functionality of home party selling is one way of direct sale where face-to-face contact with the customer provides the opportunity for social interaction. This factor has been considered as the most favourably perceived attribute of direct selling and it also allows a close relationship with the customers. The core value in the direct sale concept is to successfully build up a relationship between the buyer and the seller. Considering the Chinese historical background and culture the concept seems to fit well into the Chinese market.

From the factors above we developed a model that will be helpful for companies when entering the Chinese market through direct sale. The aim is to show how important each of the factors is for direct selling in China. From the interpretations of the research review we came to the conclusion that all these factors are considered to be of high importance in relation to the Chinese culture. Based on our theoretical model, figure 4.1, we set up twelve main questions in order to verify the model. From these main questions several subquestions were developed and used in our survey. In our study we were limited to the 75 Chinese exchange students at Kristianstad University, which are not representative for the entire Chinese population. Out of the 75 Chinese exchange students 71 of them answered our questionnaire, which led to an active response rate of 95%.

The result of the survey became the base of the emergence of a new model (figure 6.1). This model shows the different degree of importance of each of the factors involved in direct sale in China. All of the factors in our new model are above the medium level of importance. This supports our belief that all of the factors in our model play an important role for direct sale in China. However, trust, friendship, conflict avoidance and functionality showed to be of less importance compared to the other remaining factors. Loyalty was the factor, which had the highest level of importance. It shows that Chinese people value the loyalty of the seller as one of the most important factors and are more likely to buy products from a seller who shows loyalty. The literature emphasised communication, commitment and trust as the most important factors. However, in our study trust received the lowest degree of importance.

Since our sample was very small and limited to the Chinese exchange students at Kristianstad University, the result of our research cannot be generalised. In order to see if our model could be useful in real life we chose to include a case study of Oriflame. By analysing Oriflame's strategy we were able to see if our model provided the company with any complementary information. All the twelve factors in our model supported Oriflame's strategy. It is crucial for Oriflame to train and educate the salespeople to think long-term. If Oriflame considers its weaknesses and emphasises the importance of building and maintaining long lasting customer relationship its strategy is likely to be successfully implemented when entering China.

## **8.2 Applicability of the Model**

Our study consists of twelve factors, communication, commitment, trust, collective, friendship, empathy, respect, conflict avoidance, loyalty, functionality, behaviour and home party. Twelve main questions were created to investigate the importance of these twelve factors for direct sale in China. The result from our survey indicated that all these factors are at the top range of medium level or at the high level of importance. It shows that all play an important role for direct sale in China, some more than others do.

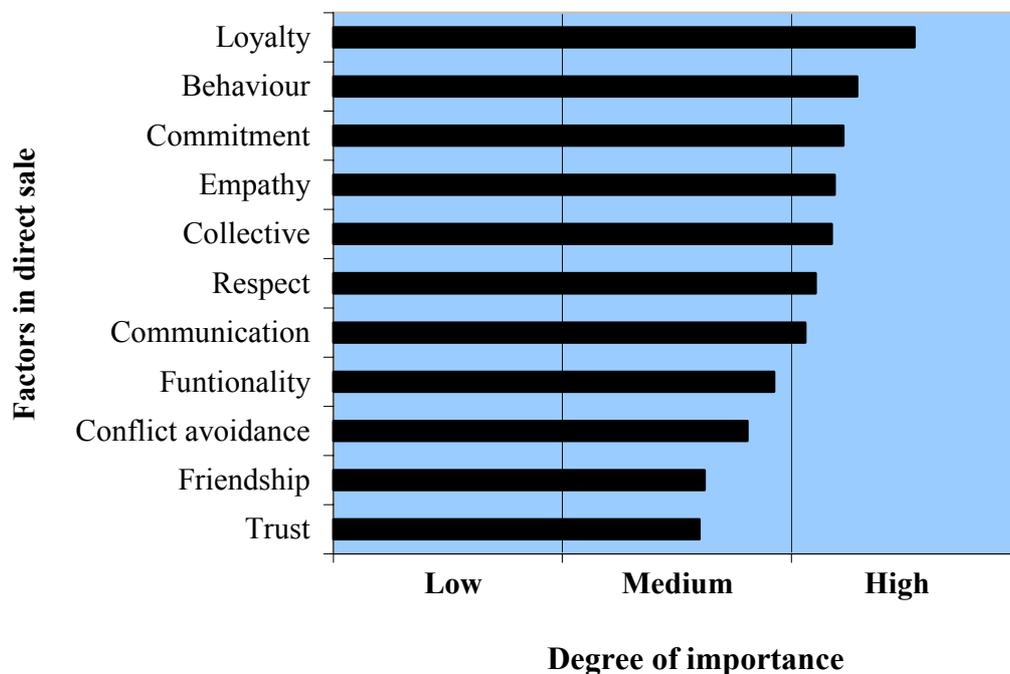
In our theoretical model, figure 4.1, the factors were sorted by degree of importance according to our belief based on the theories. After we had conducted a survey the model needed to be modified. We sorted the factors according to the outcome of the survey, which we have presented in our modified model, figure 8.1. We did this to make it easier to see which of the factors that should be prioritised. In this model we have decided to exclude the factor home party since this factor is only relevant in the case study of Oriflame.

Our survey indicates that the modified model, figure 8.1, might be useful when it comes to explaining the importance of factors involved in direct sale in relation to Chinese culture. In our case study of Oriflame the model showed to be useful as guidance for companies planning to enter the Chinese market through a direct sale strategy.

The result from our survey indicated that all these factors are at the top range of medium level or at the high level of importance. However, further research is needed in order to prove the value of the model. Our sample size was too small and consisted only of the Chinese exchange students at Kristianstad University. Furthermore, we used a non-probability sampling method and it makes it inappropriate to generalise and to draw conclusions about all Chinese consumers. China is a large country with a huge population. The Chinese share the same background, history and culture but since they live in different parts of China there are still differences in their living style. The 71 Chinese who participated in our survey almost all came from the same province in China, Zhe Jiang. This is another factor, which makes it inappropriate to make generalisation.

Figure 8.1 Modified model

**The importance of factors involved in direct sale in relation to Chinese culture**



### **8.3 Modifications**

The modified model, figure 8.1, shows the important factors in direct sale in relation to Chinese culture sorted by degree of importance. This model is useful when implementing a direct sale strategy in China. All of the factors are of importance but by looking at the model a company may decide which factors to concentrate on. It is beneficial for a company to give priority to the factors listed at the top of the model. Our model ‘The importance of factors involved in direct sale in relation to Chinese culture’ can function as guidance when implementing a direct sale strategy in China.

### **8.4 Future Research**

Our research differs from the existing theories in the way that we have ranked the eleven factors (home party excluded) by degree of importance. We have created a model that we call the ‘The importance of factors involved in direct sale in relation to Chinese culture,’ figure 8.1, and the aim of the model is to explain how important each of the factors are when a company implements a direct sale strategy in China. We have conducted a survey and the result of the study is supported by the literature. It showed that the explanatory factors in the model are correct. The result from our survey indicated that all these factors are at the top range of medium level or at the high level of importance. The factors were considered by the participants to be important although they differed in the degree of importance. However, since direct sale in China is on its way to become legal it would be interesting to do further research within the area. With our research as base further research may be conducted in other areas.

Our survey is conducted on a rather small sample and this makes it impossible for us to generalise the results. It would be interesting to do a larger survey to see if the results would be the same. Further research could prove the value of the model or reject certain parts of it. We have only investigated Chinese exchange students and these students face similar conditions since almost all of them live in the same province. Therefore, it would be interesting to investigate direct sale with participants from different parts of China. It might also be interesting to look at specific variables such as gender and age and to

conduct research on other explanatory factors, than the factors in our model. When we created our model we chose emphasised factors from the literature, however this selection process might be incorrect. Therefore it would be interesting to investigate if other factors should be part of the model. Including other factors, such as negative factors might have enabled us to see a greater variance between the factors and therefore add more validity to our model.

### **8.5 Practical Implications**

Our model has the most important practical implication for companies with the intention to enter China with a direct sale strategy; it can then function as guidance when implementing a direct sale strategy in China. By looking at the model, companies can get indications on which factors to strive for. The model can also be of help when it comes to analysing and predicting consumers' behaviour. If the company can adapt to the factors described in the model it would be easier to implement a successful direct sale strategy. This can lead to company gaining competitive advantages.

### **8.6 Discussion and criticism**

One of the main barriers a company is facing when entering the Chinese market are cultural differences. The Chinese culture is different from the rest of the world, which may cause different responses to its implementation strategy. Since the Chinese culture differs greatly from the western culture it is hard to predict how direct sale will interact with the Chinese consumers. These cultural differences will become one of the main problems when introducing direct sale in China.

Our study only involved the Chinese exchange students at Kristianstad University. This might lead to a misrepresentation of the population in China. The fact that the respondents were exchange students from China, might have led them to answer the questionnaire only to be polite or because they were happy to be here, therefore their mood at the time could have affected the answers. There was also a risk that the questions were misleading or that they were wrongly formulated, which could have affected the validity of the

result. Due to the small sample size (75) we cannot draw any generalisation of the whole Chinese population. The conclusions drawn will only be applicable for our specific sample group. Another disadvantage with our sample group is that almost all of the participants come from the same province in China, Zhe Jiang. For these reasons a wider research on the subject needs to be conducted. Language could also have led to errors in our research. Since the survey was written in English, which is not the Chinese native language, they could have misinterpreted the questions. To minimise the risk for misinterpretation of the questions we piloted tested the questionnaire before handing it out.

The dissertation is meant to present a general model over the Chinese population; therefore it excluded an analysis regarding the differences in gender and age. Our model is meant to show how important certain factors are when using direct sale in China. Our theoretical model is based on the literature but if the literature is based on non-reliable sources this could lead to the creation of a deceptive model. We have tried to avoid this error by looking up the primary sources. It could be interesting to get indications if we had chosen the right factors or if different or additional factors should be part of our model. If we instead had used in-depth interviews with the participants it would be easier to get indications if we had chosen the right factors in our model.

We had closed questions in our study and did all the interpretations in the group, which made our interpretation concordant. However, by only including positive direct sale factors found in the literature it gave a narrow picture of the result in the dissertation. The result from our survey failed to show any significant variance between the twelve factors in our model, this could be because of the formulation of the questions and that we did not include any negative factors. We also used a small and narrow sample group, which makes the model less valuable. All the outcomes of the survey might have been affected by the limited number of questions asked on each of the different factors.

In the case study of Oriflame, it would have been interesting to look at differences in gender but since this kind of research is not relevant for the purpose of our dissertation we have chosen to exclude gender and age. Our case study of Oriflame was only based on secondary data, which made the result of our case study less valuable. We were only able to analyse Oriflame's global strategy instead of its specific strategy for the Chinese market. The attempt to use our model on Oriflame showed that the model is good as a complementary source and may work as guidance when implementing direct sale in China. One should not only rely on the model but should also consult other sources of information.

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## Appendix 1 Questionnaire

### Questionnaire to investigate Chinese consumer's perception on direct marketing

We are students at Kristianstad University and currently conducting a survey to understand the Chinese consumer's attitude and perception towards direct marketing in China. We would like to ask you to spare some time to help us answer a few questions on the subject. The result will only be used in our study and all information will be strictly confidential.

Male

Female

Age:     - 20                      21-25                      26-30                      31-35                      36-40                      41-45                      46-

Home province: \_\_\_\_\_

#### **Instructions**

Please circle your response to the items. Rate aspects of the questions on a 1 to 7 scale:

1 = "Strongly disagree," or the lowest

4 = "Neither agree nor disagree," or an adequate impression

7 = "strongly agree," or the highest

Your feedback is sincerely appreciated.

*Thank you!*

#### **Part 1 Social interaction**

Circle your response to each item.

**1. I prefer to work in a group rather than on my own**

1            2            3            4            5            6            7

**2. I believe team work gives the best result**

1            2            3            4            5            6            7

**3. I prefer to shop on my own rather than in shops**

1            2            3            4            5            6            7

**4. I always help my friends to buy products**

1      2      3      4      5      6      7

**5. I like when my friends help me buy products**

1      2      3      4      5      6      7

**Part 2 Involvement**

Circle your response to each item.

1 = "Strongly disagree," or the lowest

4 = "Neither agree nor disagree," or an adequate impression

7 = "strongly agree," or the highest

**6. I am always involved in my own shopping**

1      2      3      4      5      6      7

**7. I need to decide on my own what to buy**

1      2      3      4      5      6      7

**8. I rarely shop anything on an impulse**

1      2      3      4      5      6      7

**9. I take my time to search for all necessary information before a purchase**

1      2      3      4      5      6      7

**10. I always listen to the information the seller has to give me**

1      2      3      4      5      6      7

**11. I always negotiate about the product's price before a purchase**

1      2      3      4      5      6      7

**12. The outcomes of the negotiations are always to my favour**

1      2      3      4      5      6      7

**Part 3 The seller**

Circle your response to each item.

1 = "Strongly disagree," or the lowest

4 = "Neither agree nor disagree," or an adequate impression

7 = "strongly agree," or the highest

**13. It is important to me that the seller gives me full attention**

1      2      3      4      5      6      7

**14. It is important to me that the seller is knowledgeable about the products**

1      2      3      4      5      6      7

**15. It is important to me that the seller understands my needs**

1      2      3      4      5      6      7

**16. It is important to me that the seller shows loyalty towards me**

1      2      3      4      5      6      7

**17. It is important to me that the seller respects my wishes**

1      2      3      4      5      6      7

**18. It is important to me that the seller shows commitment towards me**

1      2      3      4      5      6      7

**19. The seller's overall behaviour is very important to me**

1      2      3      4      5      6      7

#### **Part 4 The seller's effect on the consumer**

Circle your response to each item.

1 = "Strongly disagree," or the lowest

4 = "Neither agree nor disagree," or an adequate impression

7 = "strongly agree," or the highest

**20. I am more likely to buy products from a seller who shows empathy for me**

1      2      3      4      5      6      7

**21. I am more likely to buy products from a seller who I feel has a social connection with me**

1      2      3      4      5      6      7

**22. I feel more comfortable to buy products from a friend**

1      2      3      4      5      6      7

**23. I am more likely to buy products from a seller who shows loyalty towards me**

1      2      3      4      5      6      7

**24. Verbal communication (language) between the seller and the buyer is crucial in the buying process**

1      2      3      4      5      6      7

**25. Non verbal communication (body language) between the seller and the buyer is crucial in a buying process**

1      2      3      4      5      6      7

**26. I often buy products I do not want from a seller in order to prevent humiliation for the seller**

1      2      3      4      5      6      7

### **Part 5 Direct selling**

Circle your response to each item.

1 = "Strongly disagree," or the lowest

4 = "Neither agree nor disagree," or an adequate impression

7 = "strongly agree," or the highest

**27. I think the seller in direct marketing should be able to promote his/her products**

1      2      3      4      5      6      7

**28. I believe price negotiations in direct selling is very appropriate**

1      2      3      4      5      6      7

**29. I never believe a seller in direct marketing will sell fake goods**

1      2      3      4      5      6      7

**30. I believe direct selling is a very secure way to buy products**

1      2      3      4      5      6      7

**31. I could imagine myself arranging home parties**

1      2      3      4      5      6      7

Below is a list of different attributes for direct selling and traditional selling. Please tick all that are applicable.

**Direct selling is/gives... (at home)**

Time consuming

Stressful

Inadequate information

Expensive

Shallow relationship with the seller

**Traditional selling is/gives...(in shops)**

Time consuming

Stressful

Inadequate information

Expensive

Shallow relationship with the seller

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