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Party Time

Surprise! Selling through home parties is making a comeback. Here's how it can work for you

On a cool April evening in the Philadelphia suburb of Haddonfield, N.J., a so-called Pickle Party is in full swing. Thirteen women are gathered in the family room of Denise Dailey, a 35-year-old nail salon owner, where they coo over an assortment of brightly colored cloth handbags and purses. The women flip through sturdy binders of sample fabrics as they compliment Dailey's pregnant sister-in-law and discuss a recent surprise party for Dailey's 75-year-old grandmother. By the evening's end, all of them have combined different shapes, fabrics, and liners to design their own bags. And Susan Murphy, the 41-year-old founder of handbag maker Viv Pickle -- the moniker comes from her nickname at a previous job -- will have collected \$862 for 16 bags that will be delivered in seven weeks.

Murphy's company may have a unique name, but it's hardly alone in its use of direct selling. Selling through home parties -- or party planning -- may seem as cutting-edge as your mother's Tupperware. But it's on a roll, as all kinds of entrepreneurs are attracted to its simple business model and comparatively low overhead. "The level of new companies taking this route in the last five years far exceeds anything in my experience," says consultant W. Alan Luce, president of Luce & Associates in Orlando and a 35-year veteran of the direct selling business. The industry generated more than \$8 billion in sales in 2004, according to the Direct Selling Assn.

The once dowdy business got a big boost in 2002, when Warren Buffett bought the Pampered Chef, a \$750 million direct seller of kitchen goods. And underwear maker Jockey International, bath products retailer The Body Shop, and clothing and accessories maker Jones Apparel have joined the party, offering items not found in their stores or special deals.

For startups, direct selling's straightforward model makes it an especially hot ticket. While Murphy still leads some of her company's parties, typically independent sales representatives line up hosts such as Dailey to open their homes for a party. The reps' commissions, as well as the value of the hosts' gifts, are based on sales. Customers pay before a product is shipped, preventing collection headaches. Sales reps are commission-only, generally getting a 25% cut. And direct sales can certainly be less intimidating than trying to win shelf space in a retail market dominated increasingly by giants such as Wal-Mart Stores.

Party planning has its share of challenges, chief among them rapid turnover among sales reps. And some confuse party planning with pyramid schemes. The latter are powered by reps who are compensated primarily by recruiting other salespeople, not for selling actual products or services. In party planning, reps do get a slice of the sales made by the people they recruit -- maybe 2% to 8% -- but not merely by enticing someone to sign on and sell.

To succeed as a direct seller, you'll need the right product -- one unique enough to motivate people to come out for an evening to hear about it. And one with a fairly high margin, because direct selling comes with steep commissions. Before committing to the strategy, you'll want to throw test parties to gauge potential customers' reactions and refine your pitch. Then you'll need to recruit sales reps and conquer logistics such as tracking sales and handling fulfillment. And if your company uses other means to sell your product -- Viv Pickle has a retail shop in Philadelphia -- you'll want to be sure they dovetail.

As Julie Gordon discovered, home parties can mean solid sales. "I was averse to it at first," says the 35-year-old co-founder of Baby Splendor, a baby products company based in Swampscott, Mass. That was before June, 2003, when she hosted a test party in her home, netting \$1,000. "That's when I changed my mind," laughs Gordon. The two-employee company now has about 75 reps who sold \$74,000 worth of baby products in 2005.

HEFTY MARGINS

What sells at home parties? Products that aren't commodities and aren't too pricey. Many products have been dreamed up by entrepreneurs, but some companies sell items made by a variety of manufacturers, with the goal of migrating to an exclusive distribution agreement. Andrew Shure, 43, who founded Shure Pets in Chicago in 2002, linked with small manufacturers who make private-label pet products that Shure now sells under his brand. Shure steers clear of suppliers who do a lot of business with big-box retailers. "We want customers to look at us as offering something unique," says Shure, whose \$1 million company has about 1,200 reps.

Home parties are a good outlet for products that customers need to learn about before they buy. That's why Gordon and partner Kelly Majewski, 34, who started Baby Splendor with \$5,000 from their savings, last year added a new line of stuffed animals and blankets called Baby Boost. The items contain a patch that releases certain proteins. Researchers at Massachusetts Institute of Technology, who developed the patch, assert that when the proteins are released into the air, they boost the developing immune systems of babies and potentially cut the risk of asthma and allergies. That product line now accounts for 50% of sales.

It's best to offer products at a range of prices between \$10 -- opening the party to people on a budget -- and \$200. Going much higher can put your products out of the reach of most guests. Just make sure you have hefty margins. [Robert J. Hipple, a consultant with direct sales specialists Eaglecap Consulting in Ridgefield, Wash.](#), says products must sell for at least four times the cost of goods -- and preferably six times. That's because a rep's commission typically eats up 20% to 25% of the purchase price. Then there are "downstream" commissions for the rep who recruited the salesperson and gifts for the party host, which reach about 18% when combined. Administrative expenses can run about 11%, and the cost of putting on an annual gathering for reps is in the neighborhood of 3%.

PARTY CENTRAL

Even the best product won't sell if your party is a dud. "I don't care how well funded you are," says Luce. "If you don't do test parties, you are wasting your time." He recommends holding at least 8 to 10 test parties, inviting 20 to 30 people to ensure that 8 to 12 -- the ideal number of guests -- will show up. Your target for each party, says Luce, is a minimum of \$350 in sales and at least one person who is interested in hosting another gathering. There should also be one person out of every two parties who is interested in selling the product. (When you calculate those numbers, throw out the best and worst parties so they don't skew the results.)

Gordon and Majewski knew they were on to something when they tallied the results from their test parties. In their first year, they held 100 parties, averaging eight guests, \$500 in sales, and 2.5 people interested in hosting a party. Over time, some hosts became sales reps. Baby Splendor's partners learned which products sold (a stroller blanket with loops to attach toys) and which bombed (teething rings). They also fine-tuned their pitch, getting it down to a brief introduction, a history of the company, and descriptions of some top sellers, all in about 15 minutes.

The party's format, too, should be straightforward. Viv Pickle's Murphy says it is critical to put certain rules in place. She originally allowed hosts to get creative; one hired a fortune teller. But Pickle found that if people spent money on a fortune teller, they'd shell out less for a handbag. Gregory Qualizza, who started ProShop@Home to sell golf equipment, also has simplified his parties since his 1999 launch. They initially resembled rounds of golf, in which guests were grouped into foursomes and scored according to what they purchased. The best-scoring groups won prizes at the end. "I made the parties way too complicated," says the 47-year-old Qualizza. "People just wanted to hit some balls and have fun." Now they can. Qualizza's parties have become less structured, featuring a little golf trivia, a driving and putting contest, and a swing analyzer that shows which set of clubs works best for each person. Sales were \$500,000 in 2005.

Finding and keeping sales reps tends to be a direct seller's biggest hurdle. Reps are frequently mothers interested in earning extra cash, but they often enter and leave the business quickly. Claudia Jean, 57, who had a direct selling business specializing in fashionable clothes for older women, found holding on to reps so frustrating that she abandoned the business last year, even though her company was up to \$1 million in revenue by 2003. When her first group of reps began to retire, Jean had trouble finding others willing to handle customer questions and complaints. "I couldn't find people that wouldn't fold," she says.

With turnover as high as 80% to 120% a year, training needs to be streamlined. Consultant Jim Northrop of Winfield Consulting in Newport, R.I., says training a new rep should take only two to eight hours. Most companies use a combination of printed material or DVDs, telephone instruction, and time spent trailing an experienced rep. Adding reps only in nearby cities or states, at least initially, will make training easier.

A CHAIN OF COMMISSIONS

Companies that have multiple sales channels need to be sure other efforts don't undermine their direct sales force. "You don't want to bite the hand that feeds you," says Michael Lee, director of marketing for direct seller Daisy Blue Naturals, which sells body care products. If a customer who has attended one of his company's parties later buys something on the company's Web site, the sales rep in the customer's area gets the usual commission. If a purchase is made by a new customer, an area rep will call the customer to offer help with future purchases.

The chain of commissions generated by direct sales means you'll need software to track sales, and ideally, integrate them with an order processing and inventory system. Be sure to use a package specifically for party planning, such as those from Jenkon and Party Plan Solutions. Applications will run between \$15,000 and \$25,000. As sales take off, you'll likely need to stop packing orders in your basement, something Gordon and Majewski realized when they inadvertently mailed a phone receiver with a shipment. Now Princess House, a party planning company that sells cooking and entertaining products, handles their customer service, warehousing, and shipping functions. Princess House holds a small equity stake in Baby Splendor, which reimburses Princess House for its costs at a rate lower than what those services would typically cost a startup. Other companies make deals with fulfillment centers, where they rent space for warehousing and pay to have products packed and shipped.

Many party planning veterans say the most important thing an entrepreneur can do is network at Direct Selling Assn. conventions or less formal settings. Qualizza did just that, asking someone he knew at Pampered Chef to put him in touch with Jay Christopher, who founded that company with his wife, Doris. Among Christopher's tips: be sure to treat all your reps equally. Qualizza says that advice prompted him to say no to people who wanted to come into the company at senior sales positions. After all, keeping reps happy is a key to making your parties, and ultimately your venture, a success.

By Amy Barrett