



The Indian Direct Selling Industry

Annual Survey 2011-12

Beating Slowdown...

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Susmita Shekhar

Message

Secretary General, PHD Chamber

It gives me immense pleasure to share that PHD Chamber has collaborated with IDSA yet again to publish the Annual Survey 2011-12 for the Indian direct selling industry this year, and I feel honoured to present it to our esteemed readers. This is an addition to the series of annual surveys that are undertaken by the PHD Research Bureau, PHD Chamber, to assess the growth dynamics of the industry. It is an exhaustive survey based empirical report on the economic performance of the direct selling industry and its evolution over the last few years based on several parameters.

With the progressive liberalisation and globalisation of the Indian economy, today, India stands as one of the most attractive foreign investment destinations in the world. This coupled with strong economic fundamentals, rising per-capita incomes, inclination towards better quality of life, has made the Indian consumer market grow by leaps and bounds. In this process several organisations have tried to reach out to this ever expanding market through different channels of distribution, marketing and advertising. Direct selling is one such alternate distribution channel which is rapidly picking up pace in the country.

However, despite its robust double-digit growth, limited information about this sector is available. I am happy that the PHD Research Bureau has taken a step towards deriving information on the economic performance of the sector and its significance to the Indian economy.

I commend and appreciate the tireless efforts of the PHD Research Bureau which has come up with this report with its focused approach. I am hopeful that this will add to the growing literature in this subject and widen the area for further research.

I would also like to express my gratitude towards IDSA for providing us with crucial information which has facilitated us in preparing the study. I would like to thank the Chairman and Secretary General for their valuable guidance and time. We also appreciate the patience and commitment of all the IDSA members and survey participants.



Chavi Hemanth

Message

Secretary General, IDSA

Latest Annual Survey Report on Indian Direct selling industry gives realistic opinion about the Indian Direct Selling Industry and gives the assessment on the current growth dynamics. What has come to light from this report is an exhaustive survey about the empirical growth achieved by the industry over the last couple of years.

Report has been written at a time when our economy is going through a phase which can be described as exciting and our policy makers are working overtime to oil the rough edges of our economy which might derail the gains which have been made during the 20 years of our economic reforms.

This report gives a Kaleidoscopic view of the vibrant direct selling industry which is very much evident keeping in mind that direct selling industry is beating slowdown. Not many channels of distribution can claim to be resilient to economic downturns but direct selling of consumer goods has proven to be one of them time and again and continued to show YOY growth of around 20% .

Direct selling in India has been finally recognized as an effective means of creating consumer demand through explanation and demonstration, though many 'pandits' initially said that the advent of e-commerce will pose challenge to direct selling. The reality is, it has brought enormous gains. In fact it has beaten all records and continues to be the original social network in the ages of twitter, facebook and orkut.

I am confident that this Annual initiative of publishing facts and figures will be appreciated and beneficial to all stakeholders. The fact that the research team at PHD led by Dr. S.P. Sharma followed high standard research procedures ensuring authenticity, will serve as a referral document for law makers, investors and industry stakeholders.

I would also like to express my sincere thanks to member companies whose invaluable support gave the chamber valuable inputs in the making of the report which would facilitate all our stakeholders to reach to a concise and readily available facts and figures about the direct selling industry for the financial year 2011-12. I assure that IDSA will not leave any stone unturned to make India as one of the preferred market in terms of direct selling activity worldwide.

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Abbreviations

Bn	Billion
BRICS	Brazil, Russia, India, China, South Africa
B2B	(Business-to-Business)
B2C	(Business-to-Commerce)
CEIB	Central Economic Intelligence Bureau
CIS	Collective Investment Scheme
CPFTA	Consumer Protection Fair Trading Act
CSR	Corporate Social Responsibility
DIPP	Department of Industrial Policy and Promotion
DSA	Direct Selling Association
FDI	Foreign Direct Investment
FDSA	Federation of Direct Selling Association
FIPB	Foreign Investment Promotion Board
FY	Financial Year
GDP	Gross Domestic Product
IDSA	Indian Direct Selling Association
IIP	Index of Industrial Production
IMF	International Monetary Fund
INR	Indian Rupee
Mn	Million
MSME	Micro, Small and Medium Enterprises
MRP	Maximum retail price
MRTTP	Monopoly & Restrictive Trade Practices Act
MLM	Multi level marketing
MOT	Ministry of Trade
NIC	National Industrial Classification
NIAEs	Newly Industrialized Asian Economies
PPP	Purchasing Power Parity
PMA	Penanaman Modal Asing
RBI	Reserve Bank of India
R&D	Research and Development
RM	Ringgit Malaysia
Rp.	Indonesia Rupiah
SEZ	Special Economic Zone
SEBI	Securities and Exchange Board of India
SFIO	Serious Fraud Investigation Office
TDS	Tax deducted source
UK	United Kingdom
UNCPC	United Nations Central Product Classification
USA	United States of America
USD	US Dollar
USP	Unique Selling Proposition
VAT	Value Added Tax
WFDSA	World Federation of Direct Selling Association
YOY	Year on year

Executive Summary

The Indian direct selling industry has been beating the economic slowdown, notching up remarkable growth over the years and has been expanding its horizons in India as a rapidly emerging alternate distribution channel. The direct selling industry has grown at 22% during 2011-12, with its sales revenue¹ expanding from INR 52,294 million in 2010-11 to INR 63,851 million in 2011-12. The robust growth in the segment has been contributed by 22.5% growth in the organised and 17.7% growth in the unorganized segments² of the industry during 2011-12. The industry grew from INR 33,226 million in 2008-09 to the present level of INR 63,851 million in 2011-12.

The concentration of sales revenue of direct selling industry in the Southern region has now started shifting to the other regions of the country. Due to large unexplored markets and emerging growth opportunities, the direct selling firms are now looking towards the vast consumer market for their products in the Northern and North eastern regions too.

The survey revealed that the share of Northern region in sales revenue moved from 15% in 2010-11 to 20% in 2011-12 and on the contrary, the share of Southern region in sales revenue has declined from 44% in 2010-11 to 38% in 2011-12. The share of Eastern region increased marginally from 14% in 2010-11 to 15% in 2011-12, while the share of north-east increased from 7% in 2010-11 to 10% in 2011-12. However, the share of western region declined from 20% to 17% during the same period.

Regional sales figures suggested that South contributed to INR 24,264 million to the gross sales revenue in 2011-12 while North contributed to INR 12,770 million. The West region contributed to INR 10,854 million, whereas the gross revenue generated by East region stands at INR 9,578 million followed by North East at INR 6,385 million.

It is interesting to note that during 2011-12, the Northern region has exhibited remarkable growth at around 56% while North Eastern region has grown robust at 37%. The Eastern region grew at 32%, whereas, the Western region grew at 19%. However, the Southern direct selling market has decelerated at -2%.

The direct selling industry has contributed significantly to self employment generation³ over the years, and the momentum has been kept up this year as well. The total distributor base⁴ of the Indian direct selling industry during 2011-12 stands at 4,853,232 out of which 3,980,016

¹ The figures used for sales revenue in the Annual Survey 2011-12 refers to Gross sales of direct selling industry which is net sales plus direct and indirect taxes. However, the retail size of the direct selling industry has not been estimated, which may be higher than the gross sales revenue, as retail margins varies between 5% to 25% in the industry

² We have considered the organised sector to consist of companies/ enterprises which have registered themselves, have a set pattern of financials and file their returns regularly. Un-organized companies are those who have not registered themselves and have not any set pattern of financials.

³ Employment in direct selling industry is defined as self employment and micro-entrepreneurship opportunities

⁴ Distributors include direct sellers and independent sale consultants.

distributors are employed by member⁵ companies, whereas, 873,216 distributors are employed in the non-member companies. The growth of total distributor's network stands at 22.5% in 2011-12 over 2010-11, contributed by 24.2% growth among member companies and 15.2% growth among non-member companies.

The share of women has always been more than 50% of direct selling distributor base in India. However, with rising cost of living especially in metro cities, Indian men are also looking up to this sector as an earning opportunity, as the consumption expenditure has swelled up over the years. The share of men (direct sellers) increased from 36% in 2010-11 to 37.5% in 2011-12.

Out of the wide variety of products sold through the organised direct selling industry, products related to wellness contributed to the highest share of sales revenue at about INR 27,455 million (44%) while beauty/ cosmetics and personal care products at around INR 21,071 million (33%) were also very high in demand. Among other categories of products which have attracted the customers are home care and home improvement products with a gross sales revenue of INR 8,939 million (14%), consumer and household durables with INR 3,831 million (6%). Other products and food and beverages capture 3% and 1% of total sales revenue in the industry at INR 1,916 million and INR 639 million respectively. According to the survey the main drivers of growth in this sector are high quality standards of products, brand name, reliability/durability, promotional measures and good demonstrations.

The total taxes paid as reported by the IDSA member companies including both direct tax and indirect tax amounted to INR 8,212 million posting a growth of about 27% in 2011-12 over INR 6,470 million in 2010-11. The percentage of total taxes in total sales revenue generation has also increased from 21.5% in 2010-11 to 21.8% in 2011-12.

It is interesting to note that despite the intensifying global economic crisis which is looming large across the world economic scenario and the persistent slowdown in Indian economic growth vis-à-vis deceleration in industrial output, the direct selling industry has shown considerable resilience, sustaining steady growth over the years. It is evident from the fact that only a marginal decline in growth of sales revenue was noticed in 2011-12 at 22% from around 27% in 2010-11 due to slowdown in consumption demand.

It is indeed encouraging to find that the direct selling industry has firmed its ground in the economy and with growing value perception of consumers, awareness about the product range, increasing accessibility to products and growing demand in the smaller towns, the industry has enormous potential to enhance its market presence in the coming times.

Going ahead, growth prospects of the industry are bright which is set to take off, driven by strong consumer base and expanding markets. The survey revealed that industry was positive about the

⁵ Member companies refer to members of Indian Direct Selling Association and non members are not under purview of IDSA but operating in direct selling industry

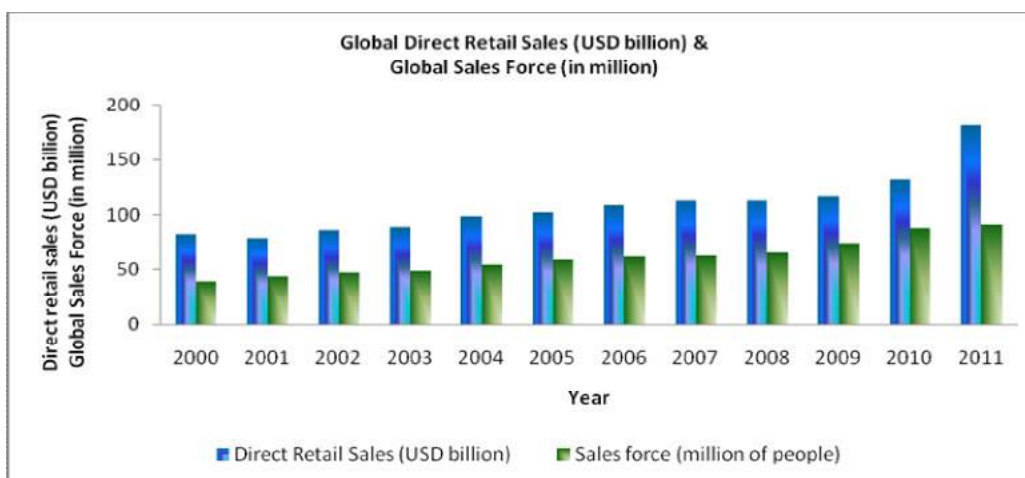
robust growth of the direct selling industry in the coming years. Respondents felt that the size of the industry is estimated to leap-frog by 2014-15 scaling upto INR 1,08,436 million from the present level INR 6,35,81 million. Though the growth of the industry vary across its different segments like organized and unorganized sectors, however, overall the industry is slated to grow at an average of more than 20% in the next three years by 2015. Further, they felt that in the long term, over next three to seven years by 2020, industry could consolidate its position across the corners of the country and grow at an average rate of 25% scaling up to INR 3,40,000 million.

1. Direct selling industry: Global outlook

Direct Selling is more than a century old trading method, which is today, practised in more than 170 countries and has a status of a global industry. The traditional method of selling includes a hierarchical network involving multiple stakeholders including users, providers, sales consultants, government and media. This mode of selling is effective for products and customers who need demonstrations or trial packages before purchase. Direct selling makes selling in new markets and selling new products easier compared to conventional marketing. Being a specialized channel of distribution, which is neither wholesale nor retail, it covers both business-to-business and business-to-consumers aspects.

In the past ten years (2001-2011), the industry witnessed a growth rate of 57% in terms of revenue generation and has registered growth by 52% in terms of employment generation. The global retail sales through direct selling grew from USD 78,700 million during the year 2001 to USD 1,82,100 million in 2011. Similarly, in the 2001, the sector offered employment opportunities to 43.8 million people which now, in 2011, stood at 91.5 million sales force.

Graph 1.1: Global direct retail sales vis-à-vis direct sellers



Source: PHD Research Bureau, compiled from World Federation of Direct Selling Association (WFDSA)

The global direct selling industry generated total revenue at USD 1,82,064 million in 2011 as compared to USD 1,32,222 million in 2010 witnessing a growth of 14%. The USA recorded highest sales in 2011 at USD 29,870 million as compared to Slovenia which registered the lowest sales among the nations at USD 24 million.

The industry generated employment for more than 91 million direct sellers in 2011 as compared to 87 million workforces in 2010, registering a growth rate of 4%. During the year 2011, 75% of females were part of the industry and 25% of males. In terms of sales strategy, 77% of sales were conducted by person-to-person interaction and 20% through party plans/groups.

Table 1.1: The global direct selling industry: Fact sheet

Parameter(s)	Unit	2011	2010
Market size	USD Million	1,82,064	1,32,222
Highest Regional sales	in %	Asia/Pacific	Asia/Pacific
		44	44
Country wise -Top global market	in %	USA	USA
		20	22
Country with highest sales	USD Million	USA	USA
		29870	28560
Country with Lowest sales	USD Million	Slovenia	Luxembourg
		24	13
Number of Direct Sellers		91,533,825	87,681,032
Direct Sellers -Female	in %	75	74
Direct Sellers -Male	in %	25	26
Sales by Compensation plan			
Multilevel	in %	56	57
Single Level	in %	42	40
Others	in %	2	3
Product wise sales (maximum)	in %	Cosmetic & Personal Care	Cosmetic & Personal Care
		30	36
Product wise sales (minimum)	in %	Food Stuff & Beverages	Food Stuff & Beverages
		2	2

Source: PHD Research Bureau, compiled from World Federation of Direct Selling Association (WFDSA)

Nearly 35% of market share of direct selling industry is held by Asian markets in 2011 at USD 64,593 million as compared to USD 52,966 million in 2010, recording a growth rate of 18%. Among the regions, North America which captures 33% of global market, registered maximum growth rate at 49% in revenue generation with USD 60,429 million against USD 30,696 million in

2010. The African and the Pacific Region (including Australia and New Zealand) registered a negative growth of 31% and 32% respectively.

Table 1.2: Region wise revenue generation 2010 vs 2011

Region	Market size (USD mn) 2011	Market size (USD mn) 2010	Growth rate (in %)	Market size (in %) 2011
Asia	64,593	52,966	18	35
North America	60,429	30,696	49	33
South & Central America	28,336	23,774	16	16
Europe	24,995	20,418	18	14
Pacific	2,280	3,004	-32	1
Africa	1,271	1,671	-31	1
Middle East	160	-	-	Less than 1

Source: PHD Research Bureau, compiled from World Federation of Direct Selling Association (WFDSA)

The direct selling industry spans across diverse range of products. There are more than 10 categories of products sold by the global direct selling industry. In 2011, nearly 30% of the industry revenue was generated by sale of cosmetics and personal care products with USD 54,619 million. The wellness/healthcare sector registered a whopping 36% in revenue generation from USD 29,089 million in 2010 to USD 45,516 million in 2011. Among the other sectors, in the year 2011, household goods contributed USD 29,130 million; it is followed by clothing & accessories (USD 16,386 million) and home improvement (USD 5,462 million).

Table 1.3: Product wise revenue generation 2011 vis-à-vis 2010

Product category	Product wise revenue generation (USD mn) 2011	Product wise revenue generation (USD mn) 2010	Growth 2011 (in %)	Share in global revenue generation (%) in 2011
Cosmetics & Personal care	54,619	47,600	13	30.6
Wellness/ Healthcare	45,516	29,089	36	25.5
Household goods	29,130	23,800	18	16.3
Clothing & Accessories	16,386	10,578	35	9.2
Home Improvement	5,462	2,644	52	3.1
Financial Services	5,462	3,967	27	3.1
Books, Toys, Stationery	5,462	3,967	27	3.1
Utilities	3,641	2,644	27	2.0
Foodstuff & Beverages	3,641	2,644	27	2.0
Others	9,103	5,289	42	5.1

Source: PHD Research Bureau, compiled from World Federation of Direct Selling Association (WFDSA)

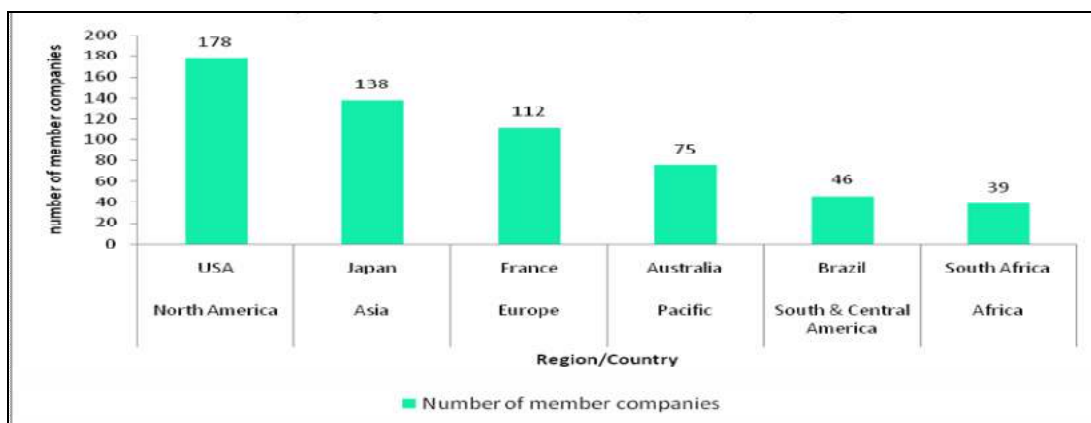
Note: Home care products are included in the category of Household Goods & Durables

1.1 World Federation of Direct Selling Associations

Direct Selling at global level is represented by World Federation of Direct Selling Association (WFDSA), founded in 1978, which acts as a federation of national direct selling associations. The federation pursues the highest level of ethical conduct in the global marketplace, fosters advocacy by partnering with government, consumer and academic leaders, and strengthens management of national and regional direct selling associations. WFDSA's membership consists of more than 60 national direct selling associations and one regional federation.

Across the globe, six major regions have been identified. In the North American region, United States of America has the maximum number of direct selling companies (178) listed as the member of its association. In the Asian region, out of the 11 direct selling associations, the Japanese direct selling association listed 138 number of member companies'. In the European region, among the 31 countries, the French direct selling association has the highest number of companies listed as its members (112).

Graph 1.2: Direct selling associations across regions



Source: PHD Research Bureau, compiled from World Federation of Direct Selling Association (WFDSA)

1.2 Asia: Capturing 35% of global revenue

Asia comprises more than 60% of the global population representing a diversified consumer base. The diversity in taste, demography, income, standard of living, health conditions have always appealed to global players who have been attracted to invest in Asia and explore broader markets. At the same time, with rising incomes and better quality of life, Asian customers have been observed to be gradually shifting from low price to high value products.

Asia has been the fastest growing region of the world for several decades. The speed and extent of Asia's economic and social progress has been inspiring and these emerging economies are now advancing at an impressive pace as major global economic powers. Today, Asia accounts for

almost a quarter of global output (22%) next to Europe (34%) and North America (32%). The Asian region is emerging with a strong middle class group that has high purchasing power and is ready to explore new products and brands, making it lucrative for global as well as domestic players to capture the market.

Table 1.4: Region wise GDP and Population

Continent	Nominal GDP (USD mn)	% share in global nominal GDP	Population (2010)	% share in global population	Age Composition of the population (in %)		
					Under 15 years	15-64 years	Over 64 years
Europe	18,775,170	34	7,38,199,000	10.7	16	68	16
North America	17,387,297	32	3,44,529,000	5	19	68	13
Asia	12,245,250	22	4,164,252,000	60.4	25	82	7
South America	3,542,535	6	590,082,000	8.6	28	65	7
Africa	1,610,887	3	1,022,234,000	14.8	41	56	3
Oceania	1,392,987	3	36,593,000	0.5	24	65	11

Source: PHD Research Bureau, compiled from International Monetary Fund (IMF)

Note: Comparable data for the above regions are available for the year 2010.

Age composition of population data is collected from Deutsche Stiftung Weltbevölkerung

In terms of Purchasing Power Parity (PPP), out of 183 countries across the globe, the United States tops the chart; however, it is followed by the Asian giants such as China, India and Japan occupying 2nd, 3rd and 4th positions respectively.

Table 1.5: Top ten and Asian countries Purchasing Power Parity

Country	Global Rank (out of 183 countries based on PPP)	Gross domestic product based on purchasing-power-parity (PPP) valuation of country GDP	Population (in mn)
United States	1	16,048.2	316.2
China	2	12,101.3	1,354.9
India	3	4,671.5	1,249.3
Japan	4	4,584.8	127.1
Germany	5	3,064.8	3,064.8
Russia	6	2,443.3	139.4
Brazil	7	2,393.1	196.5
United Kingdom	8	2,378.1	63.1
France	9	2,309.7	63.5
Italy	10	1,874.2	61
Korea	12	1,621.6	49.2
Indonesia	15	1,199.8	240.7
China	19	896.1	23.8
Thailand	24	658.5	69

Malaysia	29	460.4	29.2
Philippines	32	378.2	97.8
Hong Kong SAR	34	358.8	7.2
Vietnam	40	322.6	90.4
Singapore	45	291.7	5

Source: PHD Research Bureau, compiled from International Monetary Fund (IMF)

Note: Population data is available for 2010

In the Asian region there are 12 major countries that are actively involved in trade through direct selling method at organised level. Out of these 12 Asian countries, Japan dominates with a major chunk of 37% at USD 23,857 million during 2011 registering 5% growth from USD 22,659 million in 2010. It is followed by China that recorded 23% growth in revenue generation from USD 12,521 million in 2010 to USD 16,254 million in 2011, capturing 25% of Asian market. Economies such as Korea (USD 12,935 million), Malaysia (USD 2,908 million) and Taiwan (USD 2,845 million) are among other leading markets. India has a market size of USD 982⁶ million in 2011 registering 18% growth from USD 832 million in 2010.

Table 1.6: Asian Economies direct selling revenue generation (2011 vis-à-vis 2010)

Country	Market size (USD million) 2011	Market size (USD million) 2010	Growth rate (In %)	Share in total Asian Market (in %) 2011
Japan	23,857	22,659	5	37
China	16,254	12,521	23	25
Korea	12,935	8,882	31	20
Malaysia	2,908	2,111	27	5
Taiwan	2,845	1,933	32	4
Thailand	2,132	1,894	11	3
Indonesia	1,049	736	30	2
India	982	832	18	2
Philippines	750	546	27	1
Hong Kong	406	307	24	1
Singapore	328	292	11	1
Vietnam	147	184	-25	Less than 1
Total	64,593	52,966	18	100

Source: PHD Research Bureau, compiled from World Federation of Direct Selling Association (WFDSA)

The Asian market deals in trading of 8 broad product categories through direct selling. Out of which, wellness products captured the highest market share in Asia with 34% of the total, generating USD 15,604 million revenue in 2011. It is followed by cosmetics and personal care

⁶ Data is based on figures quoted by WFDSA according to the Calendar Year basis. However, the Annual Survey 2011-12 figures may differ as they have been computed on Financial Year basis.

products (USD 12,976 million) and household goods (USD 7,991 million) capturing 28% and 17% respectively. Other products include books & stationery, home improvement, clothing and foodstuffs capturing 4%, 3%, 3% and 1% respectively.

It was found that wellness and cosmetics lead the direct selling markets of most economies like Japan, Korea, Taiwan, India, Singapore, while household goods and others also had reasonable large market sizes in economies like Japan, Korea and Malaysia. Although, stationery products have a good market in Japan and Korea, it is negligible in most other Asian economies. Likewise, products related to food stuffs, clothing, home improvement have small markets among the Asian economies.

Table 1.7: Product diversification of direct selling in Asian market 2011

Country	Product category (in USD mn)								
	W&H	C/P	Hg	F&B	C/A	B/T/S	HI	O	Total
Japan	6,680	7,157	5,010	0	1,193	716	1,193	1,909	23,857
Korea	4,915	3,363	1,423	0	0	1,164	0	2,070	12,935
Taiwan	1,679	455	370	57	114	28	0	142	2,845
Malaysia	989	669	669	174	204	58	0	145	2,908
Thailand	704	810	256	43	107	107	0	128	2,132
India	393	314	157	10	0	0	98	10	982
Hong Kong	215	138	57	0	0	0	0	0	406
Singapore	30	69	49	161	0	0	16	3	328
Total	15,604	12,976	7,991	445	1,617	2,073	1,307	4,407	46,393
Share in Asia's market	34	28	17	1	3	4	3	9	100

Source: PHD Research Bureau, compiled from World Federation of Direct Selling Association (WFDSA)

Note: Home care products are included in the category of Household Goods & Durables

Data for China, Indonesia, Philippines and Vietnam are not available. Values have been taken excluding these countries.

Note: W&H stands for Wellness/ Healthcare, C/P stands for Cosmetics and Personal care, Hg stands for Household goods & durables, F&B stands for Food & Beverages, C/A stands for Clothing & Accessories, B/T/S stands for books, toys & stationery, HI stands for Home Improvement, O stands for Others

2. The Indian direct selling industry

In India, the direct selling industry came into existence in early 1990s soon after the country opened up to the global market. However, the industry segment gained momentum with the establishment of the Indian. The positive economic condition, wide consumer base with 60% of population in age bracket of 15-60 years, rising income levels, growing demand for various product categories and increase in geographical penetration and distribution, Indian direct selling industry is ready to explode.

India is rapidly integrating with the world economy and is supported by a conducive business environment that provides protection to its consumers and investors. Recently reforms in FDI front would foster further investment in the country and help in attracting a growing number of companies from various countries. The industry segment comprises 50% of companies with foreign origin, 40% with Indian origin and 10% joint ventures with Indian companies.

Table 2.1: Indian direct selling industry : 2011-12

Gross Sales Revenue (INR million)	6,38,51
Share in GDP (%)	0.07
Growth of Gross Sales Revenue (%)	22
Work force	4,853,232
Per capita revenue generation (INR)	13,156
Number of companies including IDSA members (approx.)	407
Companies with Indian origin (%)	40
Companies with foreign origin (%)	50
Companies with joint ventures with Indian companies (%)	10

Source: PHD Research Bureau, compiled from various sources

2.1 Retail Industry in India

Retailing has played a major role the world over in increasing productivity across a wide range of consumer goods and services. India boasts of a strong retail industry with an estimated size of Rs.5,24,000 million as on 2012, growing at a robust 16% over the last year. The share of modern retail is estimated to grow from around 8% of total retail during 2012 to more than 10% during 2015. According to the Global Retail Development Index 2012, India ranks fifth among the top 30 emerging markets for retail.

Foreign Direct Policy under Indian Retail Industry:

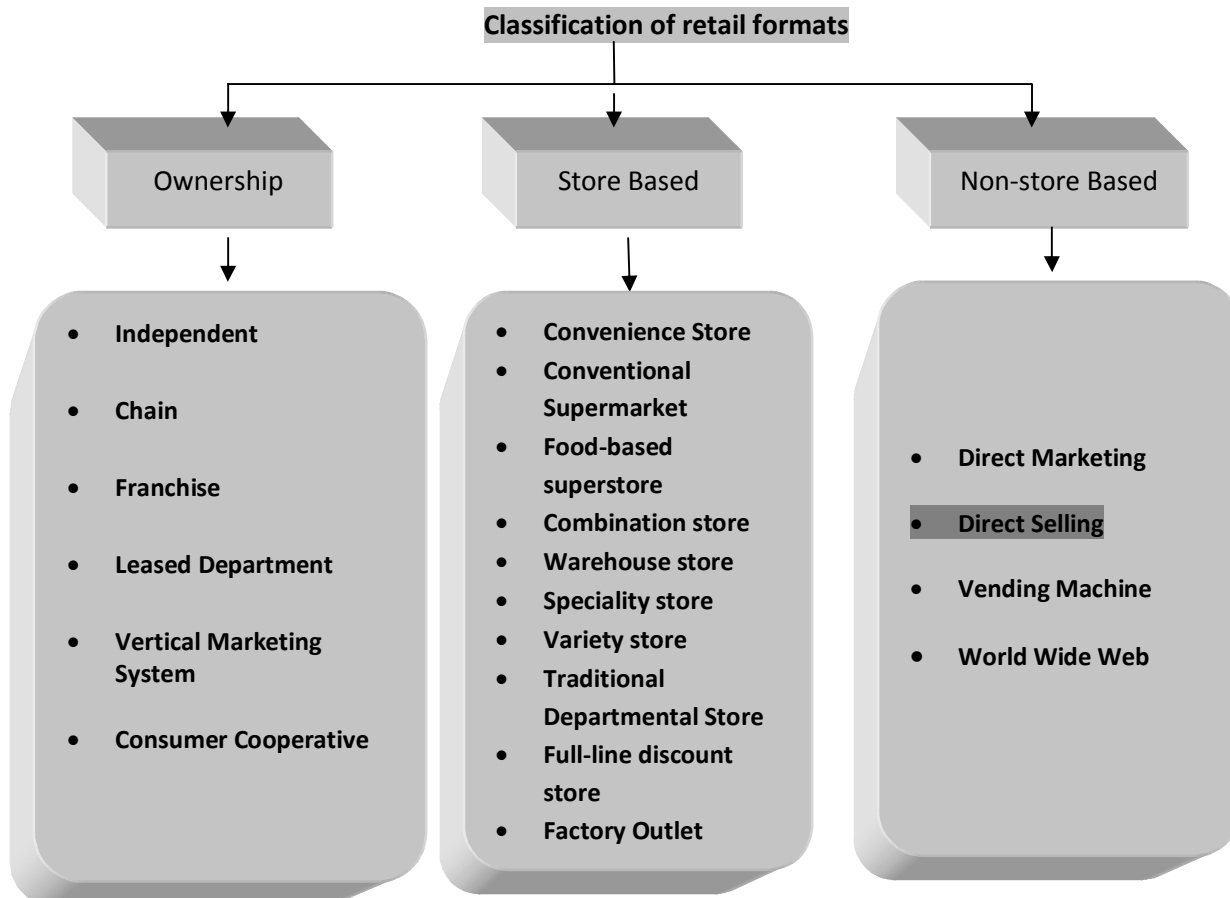
- In 1997, FDI in cash and carry (wholesale) with 100 % ownership was allowed under the Government approval route. It was brought under the automatic route in 2006.
- 51 % investment in a single brand retail outlet was also permitted in 2006.
- Recently India's central government announced retail reforms for both Multi-brand stores and single-brand stores. The cap on FDI has been increased to 100% in single brand retail and 51% in multi-brand retail.

2.1.1 Retail format(s) in India:

In India, retailers are experimenting with various formats as each format type have it's own brand and customer loyalty. At the same time it is offering differing success rates to the owners. The retail format is the store 'package' that the retailer presents to the shopper. Classification for

retail formats enables firms to understand better and enact their own strategies regarding fulfilling organizational mission, choosing an ownership alternative, defining the goods/ service category and setting objectives.

In India, direct selling, especially multi level marketing format has B2B (Business-to-Business) and B2C (Business-to-Commerce) operations. Both these modes describe the nature and selling process of goods and services. While B2B products and services are sold from one company to another, B2C products are sold from a company to the end user. Thus, direct selling is neither a part of retail trade nor wholesale trade; rather, it is Sui generis in nature, with properties of both retail and wholesale trade.



Source: PHD Research Bureau.

2.1.2 Direct selling classification

- Internationally, direct selling is a non-store retail format - UNCPD Version 2 (code 624) classifies direct selling under non-store retail format.
- In India, Department of Industrial Policy & Promotion (DIPP) classifies direct selling under wholesale cash and carry.
- However, the industry classification refers to it as non-store retail format.

3. Objectives of the present study

The annual survey for the direct selling industry 2011-12 focuses on the growth dynamics of the direct selling industry in India from the perspective of organizations involved in manufacturing and selling and the customers. The specific objectives of the study pertain to survey-based empirical study to analyse future prospects of the industry with regards to: -

- a. To study the emerging trend in sales revenue in the direct selling industry of India
- b. To understand the extent of geographical penetration and product diversification of the direct selling industry of India.
- c. To know the production and market strategies from the producers' perspective
- d. To analyse the perspective of consumers on direct selling and its products
- e. To analyse the critical success factors and sensitivities of the direct selling industry
- f. To assess the growth outlook, going forward.

4. Research Methodology

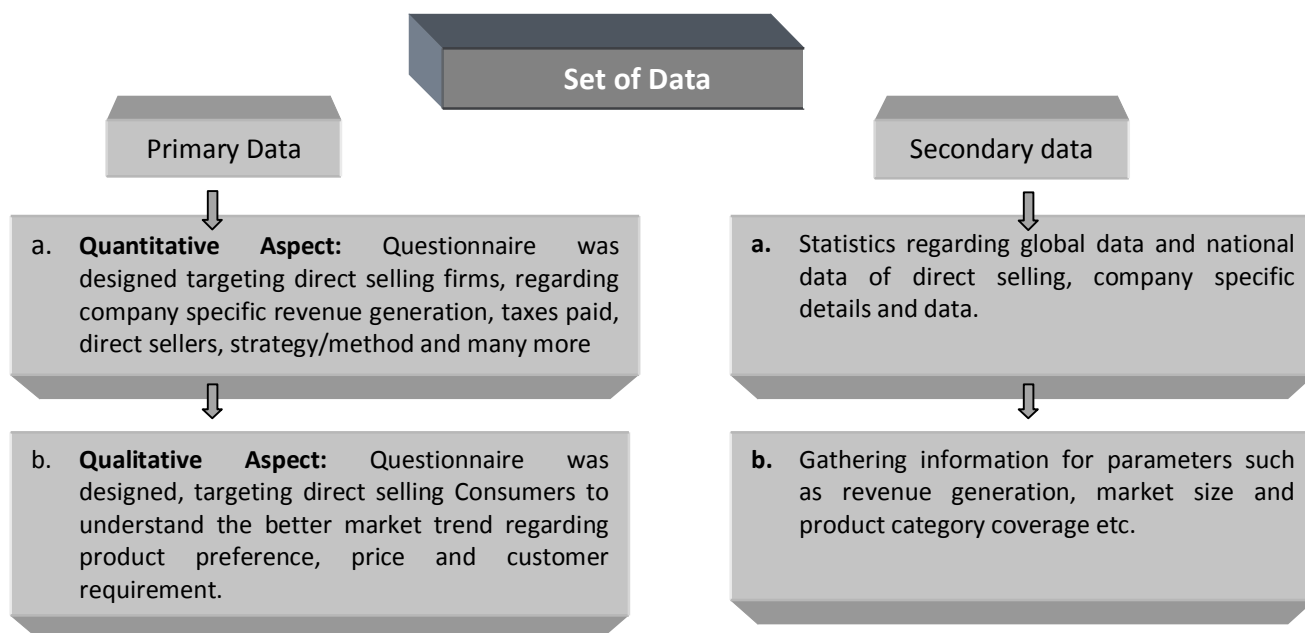
The present study is an attempt to analyse Indian direct selling industry's growth, prospects and important issues both from producers and consumers perspectives. The key activities to conduct the survey for the year 2011-12 were initiated in October 2012 and extended for a period of three months. These activities ranged from preparation of questionnaires, data retrieval, verification of the survey findings, and inputs from the individual direct selling companies, experts and customers of the direct selling industry.

4.1 Data Collection

For the report both primary and secondary data sources have been taken into consideration. For the primary data both qualitative and quantitative methods have been used. In addition, detailed study of various issues of IDSA newsletter was undertaken along with documents like project reports of companies, feasibility reports and organisational announcements.

- Inferences regarding sales revenue⁷ have been arrived at through inputs received from the respondents and trend analysis of times series data.
- The figures on distributor base have been estimated from the inputs given by direct selling companies on the basis of new recruitments and attritions in the present year
- Total taxes paid by the IDSA member companies have been calculated on basis of inputs received from questionnaire on the amount paid as direct and in-direct taxes by them.

Mode of data collection



Source: PHD Research Bureau

4.2 Data collection technique

Systematic sampling technique was used in case of producers' survey in which the respondent firms were chosen on the basis of past experience and data available with the chamber. However, in case of consumers' survey, random sampling technique was used where respondents were chosen randomly across various cities.

⁷ Two separate questions were asked about net sales revenue and direct and indirect taxes paid during the producers' survey. Subsequently both the figures were clubbed to arrive at the gross sales revenue.

Table 4.1: Process of data collection

Questionnaire	Technique	Description	No. of respondents
Producers	Systematic Sampling ⁸	Direct selling companies across product categories and services in India was identified and an exhaustive list was prepared.	77
Consumers	Random sampling: Equal Probability of Selection Method of Sampling ⁹	Customers responded from different cities including: Delhi, Mumbai, Chennai, Kolkata, Bengaluru, Hyderabad, Chandigarh, Lucknow, Patna, Bokaro, Ambala, Udaipur, Vadodara, Cochin, Ludhiana and Bhubaneswar. Customers belong from different strata of the society including age-groups, income levels, preferences and tastes to understand their attitude towards direct selling products.	1024

Source: PHD Research Bureau

5. Producer survey analysis

The Indian direct selling industry has notched up remarkable growth over the years and has been expanding its horizons in India as a rapidly emerging alternate distribution channel. India has a strong potential for direct selling on many counts acting as an important vehicle serving better market penetration in rural areas and Tier II and Tier III cities. Going ahead, the growth prospects of the industry are bright which is set to take off, driven by strong consumer base and expanding markets. Many Indian and multinational direct sellers have started operations in India through joint ventures or wholly-owned subsidiaries.

5.1 Sample Selection

The producers/manufactures of direct selling products were surveyed to analyse the overall situation of the industry from the perspective of revenue generation, market penetration, sales method, employment generation, future scope and potentiality and qualitative inputs like new guidelines given by the government. PHD Research Bureau has received in total 77 responses

⁸ It is used in those cases where a complete list of population from which the sample is to be drawn is available.

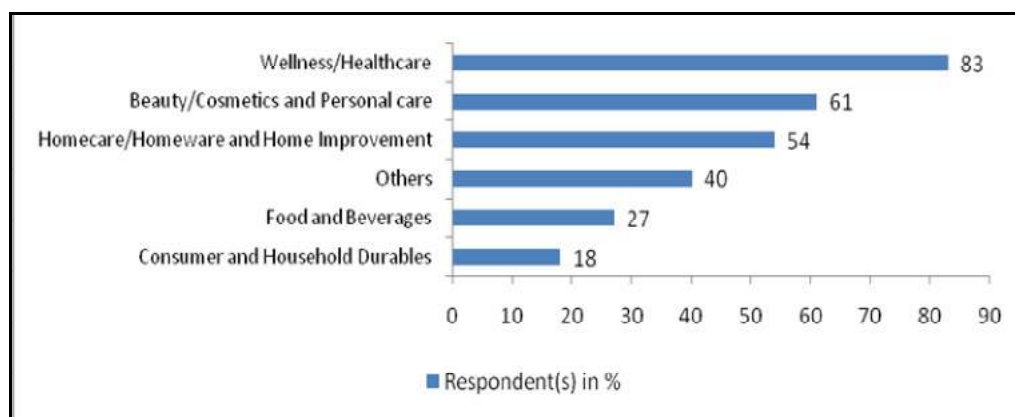
⁹ In this technique every individual, or object, in the population of interest has an equal opportunity of being selected for the sample.

from direct selling producers/companies including both IDSA members and non IDSA members. Out of the total, more than 80% of companies were only engaged into direct selling business as their chief source of revenue. However, the limitation of the survey lies at the fact that it is often difficult to collect information regarding firms operating in the unorganised sector where the challenge lies with the fraud companies operating in this segment. The responses received have been put together and inferences on the aggregation have been represented in terms of averages and percentages.

5.2 Characteristics of the sample

The survey has taken into consideration direct selling companies which manufacture 6 broad product categories. The highest share of the respondent companies belonged to wellness/ healthcare at 83%, followed by beauty/ cosmetics and personal care at 61%, homecare/ home-ware and home improvement at 54%, others at 40%, food and beverages at 27% and consumer and household durables at 18%.

Graph 5.1: Product wise category coverage among respondents



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

Note: Others include Agricultural products, educational products, utilities, auto care, promotional items etc.

Note: Figures includes multi-category production companies

5.3 Sales revenue growth of direct selling industry

The sales revenue¹⁰ has scaled remarkable growth over the years and has reached INR 63851 million in 2011-12. The total sales revenue by the direct selling firms during 2011-12 can be split up into total sales revenue of INR 58,743 million by the companies belonging to the organized sector and INR 5,108 million by the unorganized sector.

¹⁰ The figures used for sales revenue in the Annual Survey 2011-12 refers to Gross sales of direct selling industry which is net sales plus direct and indirect taxes. However, the retail size of the direct selling industry has not been estimated, which may be higher than the gross sales revenue, as retail margins varies between 5% to 25% in the industry.

Table 5.1: Sales revenue statistics of direct selling industry during recent years

Category	YOY growth 2011-12 (in %)	2011-12	YOY growth 2010-11 (in %)	2010-11	YOY growth 2009-10 (in %)	2009-10	2008-09
Member(INR Mn)	25.2	37,672	28.0	30,080	25.0	23,500	18,800
Member (US\$ Mn)	19.0	786.5	33.3	661.1	21.1	495.8	409.5
Non-Member (INR Mn)	17.8	26,179	25.5	22,214	22.7	17,700	14,426
Non-Member (US\$ Mn)	11.9	546.5	30.7	488.2	18.8	373.4	314.29
Total(INR Mn)	22.1	63,851.0	26.9	52,294.0	24.0	41,200.0	33,226.0
Total (US\$ Mn)	16.0	1,333.0	27.6	1,149.3	24.5	901.0	723.9
Organised sector (INR Mn)	22.5	58,743	27.9	47,953.6	24.8	37,492	30,036.3
Organised sector (US\$ Mn)	16.4	1,226.4	33.2	1053.9	20.9	791	654.3
Unorganised sector (INR Mn)	17.7	5,108	17.1	4,340.4	16.2	3,708	3,189.7
Unorganised sector (US\$ Mn)	11.8	106.6	22.0	95.4	12.7	78.2	69.40

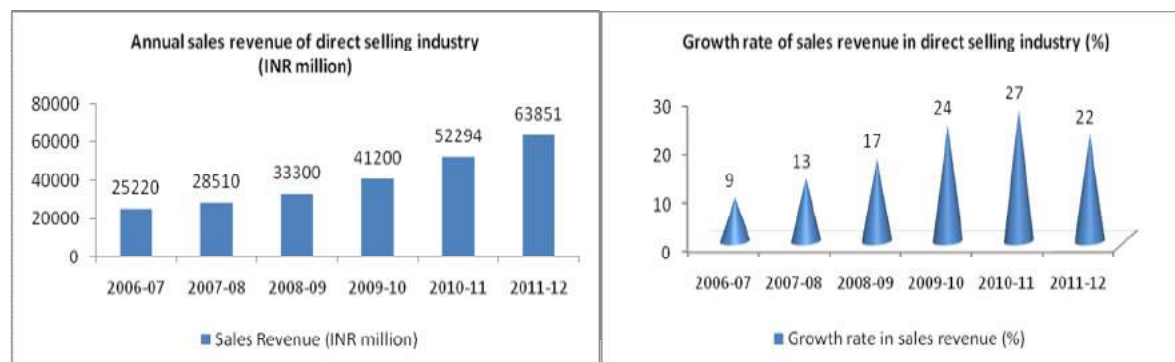
Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

Note: Average Exchange rate for 2008-09 is 45.9 INR/US\$, for 2009-10 is 47.4 INR/US\$, for 2010-11 is 45.5 INR/US\$, for 2011-12 is 47.9 INR/US\$

Note: The sales revenue numbers have been arrived through inputs received from the respondents from the organised and unorganised sector. However, 20% of respondents in organised and 35% respondents in unorganised sector did not provide information on sales revenue. So the data have been driven on the basis of available information.

The rate of growth of sales revenue in the direct selling industry has been robust and has increased at a steady pace. It was found that the industry revenue grew¹¹ at 9% during 2006-07, at 13% during 2007-08, at 17% during 2008-09, at 24% during 2009-10, at around 27% in 2010-11 and at 22% in 2011-12. The marginal decline in sales revenue may be attributed to stagnation in consumption demand owing to the persisting slowdown in the economy. Further, there has been a lack of policy framework for the direct selling industry which may have strained growth. However, the advent of young population and popularization of the concept of social networking have been major driving force behind its steady growth, despite economic slowdown.

Graph 5.2: Trend in sales revenue growth

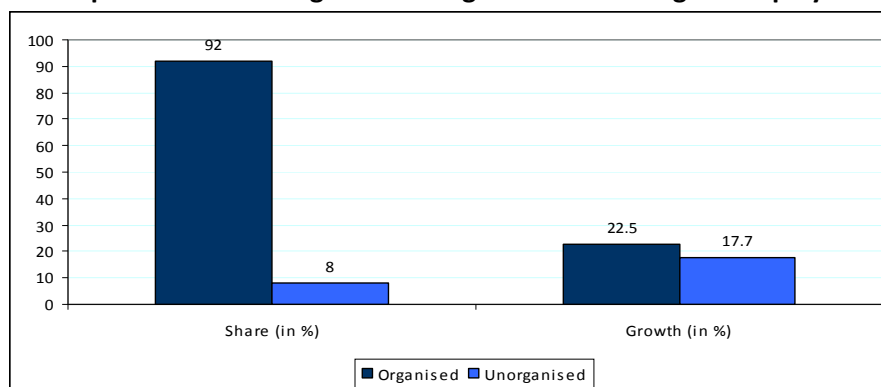


Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

¹¹ IDSA Annual Surveys since FY 2006

As mentioned above, the direct selling industry comprises companies which are operating under the organized market structure and companies which are operating under the unorganized market¹². It was found that during 2011-12, the companies under organized sector contributed to 92% to the total sales revenue of direct selling industry marking a growth of 22.5%. On the other hand, companies in the unorganized market contributed to 8% of total sales revenue of direct selling industry growing at 17.7%.

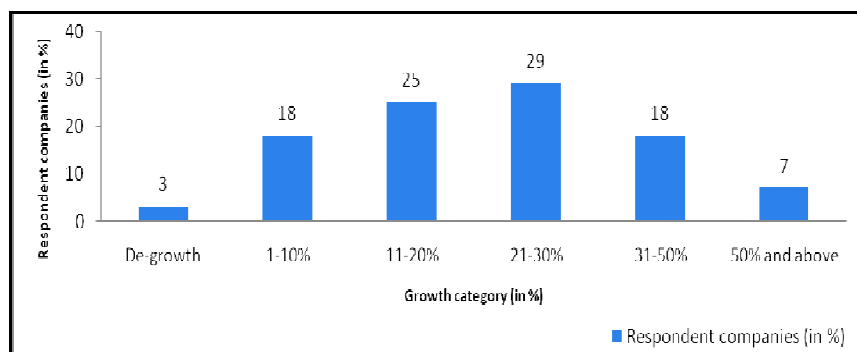
Graph 5.3: Share and growth of organized and unorganized players



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

During 2011-12, around 80% of the direct selling companies has grown at double digit rates contributed by a 25% of them growing at 11-20%, 29% of them growing at 21-30%, 18% of them growing at 31-50% and 7% growing at 50% and above. However, 3% of the companies have decelerated while 18% companies have grown within 1-10%.

Graph 5.4: Percentage of respondent companies across varying levels of growth



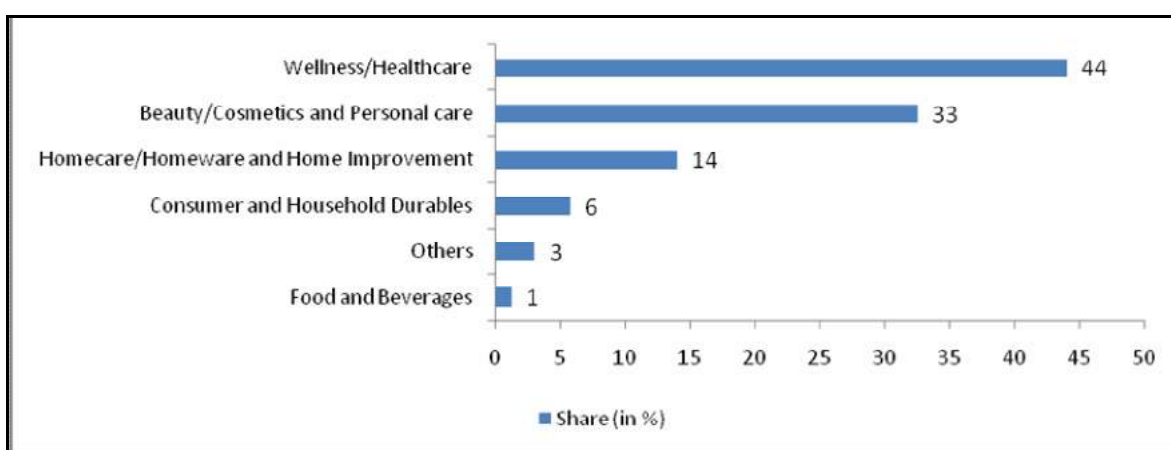
Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

¹² We have considered the organised sector to consist of companies/ enterprises which have registered themselves, have a set pattern of financials and file their returns regularly. Un-organised companies are those who have not registered themselves and have not any set pattern of financials.

5.4 Product composition in sales revenue

Products related to wellness/healthcare contributed to a lion's share in the total sales revenue of the organised direct selling industry, by a share of 44%, whereas, beauty/cosmetics and personal care and home ware and home improvements products have captured 33% and 14% shares respectively. This is followed by 6% share of consumer and household durables, 3% share belonging to other categories and a meagre share of 1% to foodstuffs and beverages.

Graph 5.5: Product category-wise share in total sales revenue in the organized market (% share)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

Note: Out of the respondents in the organised sector, 20% of them did not provide information on product category-wise share in revenue. So the data was driven on the basis of available information.

Others include Agricultural products, educational products, utilities, auto care, promotional items etc.

5.5 Geographical segmentation in revenue generation among direct selling companies

The Southern region has been the largest and most well established market for the direct selling industry in the past few years. However, the concentration of sales revenue of direct selling industry in the Southern region has now started shifting to the other regions of the country. Due to large unexplored markets and emerging growth opportunities, the direct selling firms are now looking towards the vast consumer market for their products in the Northern and North Eastern region.

The survey revealed that the share of Northern region in sales revenue moved from 15% in 2010-11 to 20% in 2011-12 and on the contrary, the share of Southern region in sales revenue has reduced from 44% in 2010-11 to 38% in 2011-12. The share of Eastern region increased marginally from 14% in 2010-11 to 15% in 2011-12, while the share of North East increased from 7% in 2010-11 to 10% in 2011-12. However, the share of Western region declined from 20% to 17% during the same period.

Regional sales figures suggested that South contributed to INR 24,264 million to the gross sales revenue in 2011-12 while North contributed to INR 12,770 million. The West region contributed to INR 10,854 million, whereas the gross revenue generated by East region stands at INR 9,578 million followed by North East at INR 6,385 million.

It is interesting to note that the Northern region has exhibited remarkable growth at around 56% while North Eastern region has grown robust at 37%. The Eastern region grew at 32% during 2011-12, whereas, the Western region grew at 19% in 2011-12. However, the Southern direct selling market has decelerated at -2%.

Table 5.2: Geographical segmentation and sales revenue (in %) of direct selling companies

Region	States	Key Cities	% share in sales revenue (2011-12)	% share in sales revenue (2010-11)
North	Jammu & Kashmir, Himachal Pradesh, Delhi, Haryana, Uttar Pradesh, Uttarakhand, Punjab	Delhi, Kashmir, Allahabad, Panchkula Kanpur, Lucknow, Roorki Varanasi, Gurgaon , Mohali and Ludhiana	20 (56%)	15 (59%)
East	Bihar, Jharkhand, West Bengal, Odisha	Patna, Ranchi, Kolkata, Slliguri, ,Alpaiguri, Burdwan, Midnapur, Bhubaneswar, Kolkata	15 (32%)	14 (37%)
North East	Arunachal Pradesh, Assam, Meghalaya, Nagaland, Manipur, Mizoram, Tripura, Sikkim	Ziro, Guwahati, Dimapur, Aizawal and Gangtok	10 (37%)	7 (48%)
West	Maharashtra, Goa, Gujarat, Rajasthan	Mumbai, Kalyan, Pune, Ahmedabad, Udaipur, Sriganaga Nagar, Nasik, Nagpur	17 (19%)	20 (17%)
South	Karnataka, Andhra Pradesh, Tamil Nadu, Kerala	Bengaluru, Mysore, Vijayawada, Chennai, Hyderabad, Trichy, Madurai , Nagercoil ,Cochin, Calicut, Kannur, Trlvandrum, Liruvalle	38 (-2%)	44 (14%)

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

Note: Figures in the parenthesis indicate regional growth rates (Y-O-Y)

Amongst the dominant markets for the Northern region are Delhi, UP, Chandigarh and Hararyana while in the North- East region, Nagaland, Manipur, Assam and Meghalaya are important areas. West Bengal and Bihar are important markets in Eastern region, Maharashtra and Gujarat in Western region and Karnataka, Kerala, Chennai and Andhra Pradesh are well developed direct selling markets in Southern region.

5.5.1 Segment wise growth drivers

It was observed that Tier II¹³ cities were the major drivers of growth which registered around 98% (Y-o-Y) growth in the gross sales revenue during 2011-12, while Tier III cities posted a growth of 46% and Metro cities/ Tier I registered a growth of 14% in gross sales revenue.

Table 5.3: Growth drivers: Movers and shakers

Segments	Growth in gross sales revenue in 2011-12 (Y-o-Y) %
Tier II Cities/towns	98%
Tier III Cities/towns	46%
Metros / Tier I Cities/ towns	14%

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

Amongst Metropolitan cities Delhi, Chennai, Kolkata and Mumbai are all significant markets for the direct selling industry, while other Tier I cities like Bengaluru, Hyderabad, Pune and Allahabad are other popular markets. The survey revealed that Chennai was ranked the most attractive market followed by Bengaluru, then Kolkata, then Mumbai and then Delhi. This was followed by Hyderabad, then Pune, then Allahabad, followed by Ludhiana and Patna.

Table 5.4: Ranking of cities: Top ten

Rank	City
1.	Chennai
2.	Bengaluru
3.	Kolkata
4.	Mumbai
5.	Delhi
6.	Hyderabad
7.	Pune
8.	Allahabad
9.	Ludhiana
10.	Patna

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

5.6 Regional distribution of distribution centres

Based on the region-wise market size, the direct selling firms have set up their distribution centres to provide for better distribution of products and increase product outreach. As mentioned above, although, urban centres like metro/ Tier I cities serve as major markets for

¹³ The Census Commission defined Metro/ Tier-I cities with population of more than four million, Tier – II cities with a population between 2 to 4 million and Tier III cities with a population between 1 to 2 million.

these products, Tier II cities and Tier III cities including other towns and even rural areas have also started picking up in their market share. And hence, the firms have spread their distribution centres across various areas to reach out to the consumers. It was found that among the respondent direct selling firms, 41% of the distribution centres were set up in metro cities, 28.8% in Tier I cities, 15.6% in Tier II cities and 14.6% in other towns and cities.

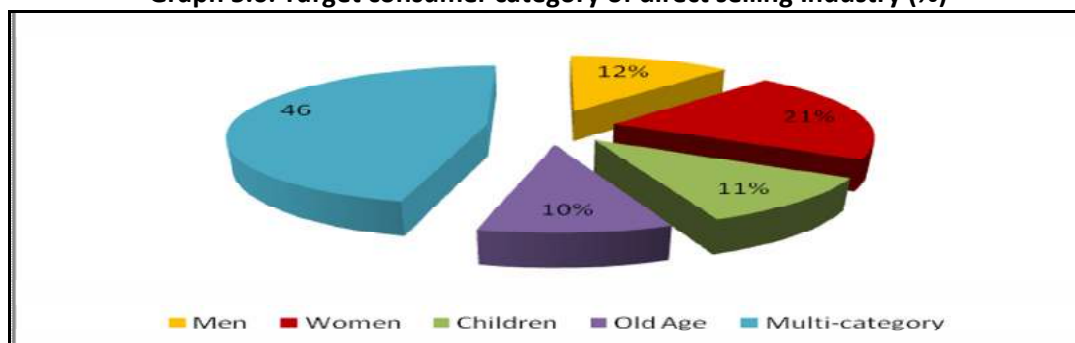
5.7 Product expansion

A number of new companies are entering the country and expanding their portfolio of products which include expanding production as well as diversification of existing products. The survey revealed that, on an average, direct selling companies have introduced more than 10 new products/ variants during 2011-12.

5.8 Population segmentation in manufacturing

During the survey it was found that among the 77 direct selling firms, nearly 46% of respondent companies manufacture or design products that fulfil the requirement of various sections of society like men, women, children, as well as old age members. Survey findings revealed that around 21% of companies manufacture products which are utilized by women, including cosmetics, kitchenware, home care, skin care, hair care, jewellery among others, while 12% companies manufacture products for men, 11% of products cater to children and 10% cater to old age people.

Graph 5.6: Target consumer category of direct selling industry (%)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

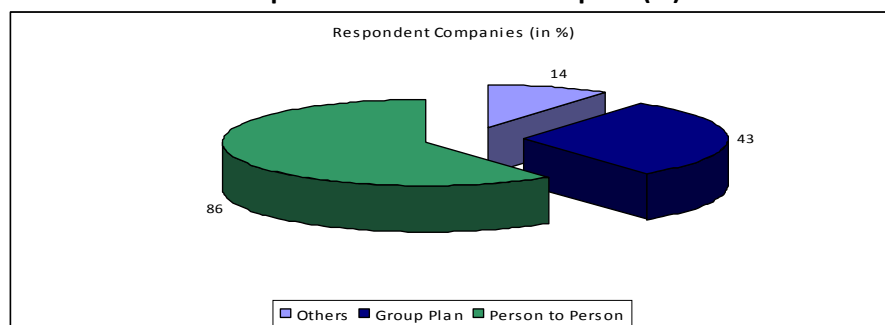
5.9 Sales method and promotional policy of direct selling companies

A very notable and interesting observation has come to light that most direct selling firms have started adopting multiple modes of sales during this year. Person to person method continues to

be the predominant way of direct selling distribution channel. Sales demonstrations through hosting social events/ parties, social networking and internet have also gained their share in our survey.

The survey revealed that nearly 86% of the respondent firms used person to person sales method for selling their products. It is usually conducted during afternoon hours and is popular for selling products such as wellness/healthcare, cosmetics and food/beverages. On the other hand, nearly 43% of the respondent opted for group plan sales method while around 14% adopted other sales methods like social networking and internet.

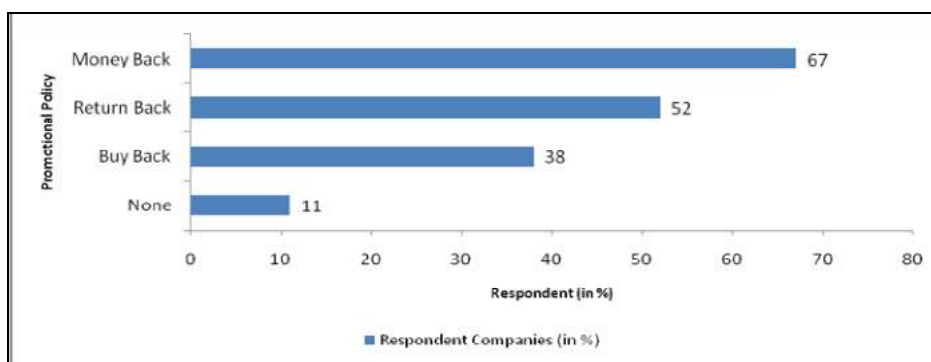
Graph 5.7: Sales method adopted (%)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

Backed by extensive Research & Development facilities and high quality standards, direct selling firms offer platform for various promotional policies to their customers. On an average, the direct selling firms have invested around 4% of their gross sales revenue for research & development during 2011-12. As per the survey, 67% of the surveyed firms offer money back policy on their products to the customers, even if the product is used. The second most popular method adopted by these companies is return back policy, as 52% of the respondent firms give this incentive to its customers while 38% respondents adopted buy-back promotional method. However, 11% of the survey firms do not provide any promotional measures to their customers.

Graph 5.8: Promotional policy adopted by direct selling companies (%)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

5.10 Contribution to exchequers

The organised direct selling firms¹⁴ are liable to pay to the exchequer from the revenue they generate during the fiscal year. The respondent firms pay varying levels of taxes including corporate tax, sales tax/ value added tax, customs and excise duty, octroi etc, inter- state manufacturing and selling of products. The percentage of total taxes including both direct tax and indirect tax in total sales revenue generation by the IDSA member companies have increased from 21.5% in 2010-11 to 21.8% in 2011-12.

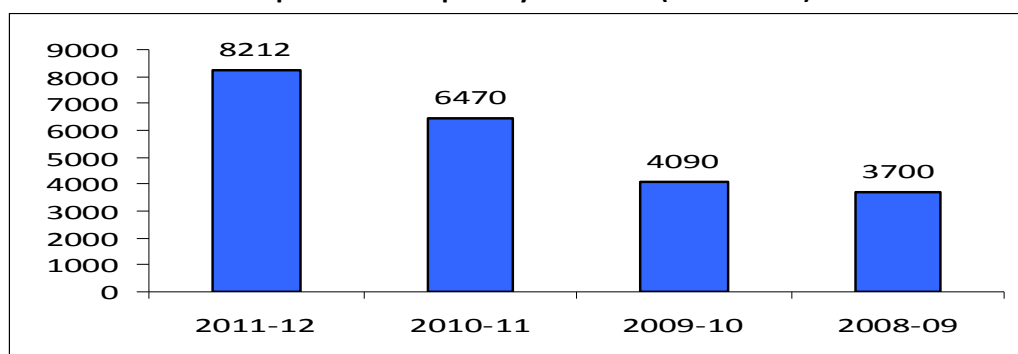
Table 5.5: Taxes paid by IDSA member companies

Year	Taxes paid by members (% share in total sales revenue generation by member companies)
2011-12	21.8
2010-11	21.5
2009-10	17.0
2008-09	20.0

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

The total tax paid by the member companies amounts to INR 8212 million in 2011-12 as compared to INR 6,470 million in 2010-11, INR 4,090 million in 2009-10 and INR 3,700 million in 2008-09. The tax paid as reported by the direct selling member companies has increased to about 27% in 2011-12 over 2010-11.

Graph 5.9: Taxes paid by members (INR million)

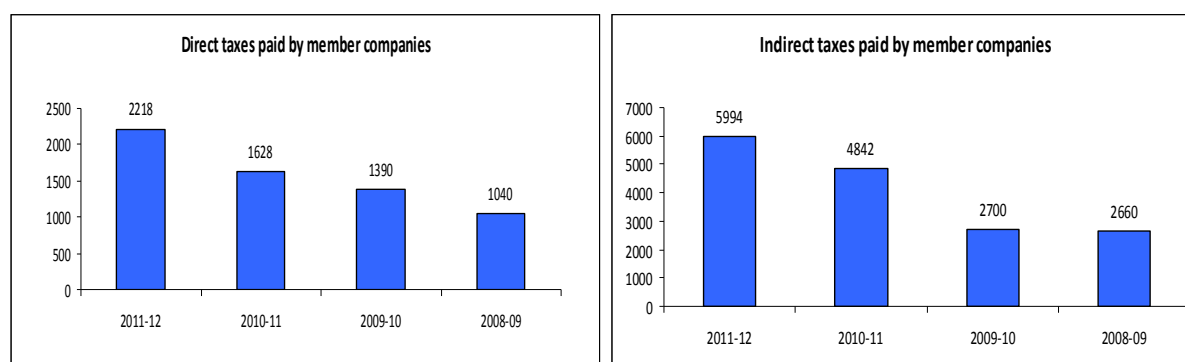


Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

¹⁴ The taxes paid have been estimated for the direct selling companies in organized sector and IDSA members only. However, out of the respondents in the organised sector, 20% of them did not provide information on taxes paid. So the data was driven on the basis of available information. It may be mentioned that the estimated taxes scenario also includes taxes paid through outsourced manufacturers, logistics providers and packers involved in the supply chain

The direct taxes have increased from INR 1,040 million in 2008-09 to INR 1390 million in 2009-10 to INR 1,628 million in 2010-11 and further to INR 2,218 million in 2011-12, while indirect taxes have scaled up from INR 2660 million to INR 2700 million in 2009-10 to INR 4,842 million in 2010-11 and further to INR 5,994 million in 2011-12.

Graph 5.10: Share of direct and indirect tax paid by member companies (INR million)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

5.11 Self - employment generation

Becoming a direct seller requires little or no capital. As it is a channel where sales happen through demonstrations and the venue of the demonstration is decided by the consumer, hence no outlets are required. Further no rentals with no large payrolls inventories are needed. The only pre-requisite to start a direct selling business is to have the zeal to work hard.

The total distributor base¹⁵ of the Indian direct selling industry during 2011-12 stands at 4,853,232 out of which 3,980,016 distributors are employed¹⁶ by member companies, whereas, 8,73,216 distributors are employed in the non-member companies. The growth of total distributor's network stands at 22.5% in 2011-12 over 2010-11, contributed by 24.2% growth among members and 15.2% growth among non-members.

The steady growth is attributed to factors such as entry of new firms, expansion of business to different cities and more youth joining the force. The enhancement in distributors' network in the sector may be attributed to the inclination of people towards additional earning opportunities in the wake of enhanced consumption expenditure. Besides this, although, for various reasons direct selling industry has been a major steering in the direction of women empowerment, with rising cost of living especially in metro cities, Indian men are also looking up to this sector as a lucrative earning opportunity in recent times.

¹⁵ Distributors include direct sellers and independent sale consultants.

¹⁶ Employment in direct selling industry is defined as self employment and micro-entrepreneurship opportunities

Table 5.6: Growth of distributor's network in 2011-12

Category	2011-12	Y-o-Y Growth (in %)	2010-11	Y-o-Y Growth (in %)	2009-10
Member	3,980,016	24.2	3,204,522	24.9	2,565,418
Non-member	873216	15.2	7,58,000	22.1	6,21,000
Total	4,853,232	22.5	3,962,522	24.5	3,186,418

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

Note: Around 20% of respondents in organised and 35% respondents in unorganised sector did not provide information on distributors' network. So the data have been driven on the basis of available information.

The industry witness high attrition rate, as many individuals join direct selling as part timers to earn supplementary income. The factors that have been observed for rising attrition rate are such as, direct sellers are at times unable to target the right customers making almost no sales, distributors change direct selling company and direct sellers are unable to devote time to the business. The survey revealed that during the fiscal 2011-12, attrition amongst distributors/field force as a percentage of total sales force stands at around 5%.

5.12 Per capita revenue generation slips marginally

Although, employment has grown steady keeping up a good growth pace, the relatively slow growth in sales revenue, due to stagnation in demand has impacted the productivity of sale force. The per-capita revenue generation which increased from INR 12,956 in 2009-10 to INR 13,206 in 2010-11 has dipped marginally to INR 13,156 in 2011-12.

Table 5.7: Per-capita revenue generation by direct selling industry

Year	2011-12	2010-11	2009-10
Sales revenue (INR million)	63,851	52,294	41,200
Total sales force	48,53,232	39,62,522	31,86,418
Per - capita revenue generation (INR)	1,31,56	1,31,97	1,29,29

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

Note: Sales revenue and sales force figures pertain to combined figures of members and non-members

5.13 Share of men and women among direct sellers

Over the decade it has been noticed across nations that in the direct selling business, women have been playing an active role. The share of women has always been more than 50% in direct selling business. However, with rising cost of living especially in metro cities, Indian men are looking up to this sector as a supplementary earning opportunity, as the consumption basket of the family has swelled up over the years. Among the males, it has been noticed that students are fast picking up to earn extra money to support their short or medium term goals. Besides, with slowdown in the Indian industry, mainstream employment generation has also been hit over the past couple of years. Hence, joining the direct selling industry seems to offer a viable income

opportunity for males. The share of men (direct sellers) has increased from 36% in 2010-11 to 37.5% in 2011-12.

Table 5.8: Share of men and women among direct sellers

Direct sellers' network- gender wise split (in %)		
Year	Men	Women
2011-12	37.5	62.5
2010-11	36.0	64.0
2009-10	30.0	70.0

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

5.14 Pattern of commitment among direct sellers

The survey revealed that the percentage of self-employed of total distributors base in the category of men have increased to 41% in 2011-12 from 37% in 2010-11, while the percentage of self-employed of total distributors base in the category of women registered a decline to 59% in 2011-12 from 63% in 2010-11. On the other hand, the percentage of part timers of total distributors' base in the category of men declined to 42% in 2011-12 from 44% in 2010-11, while the percentage of part timers of total distributors' base in the category of women has scaled up to 58% in 2011-12 from 56% in 2010-11.

Table 5.9: Pattern of commitment among direct sellers

Particular	Category	2011-12	2010-11
Percentage of self-employed of total distributors base	Men	41%	37%
	Women	59%	63%
percentage of part timers of total distributors base	Men	42%	44%
	Women	58%	56%

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

To sum up, it was clear from the inputs received from producers' end that the outlook for direct selling industry is very positive, bright and promising, going forward. Almost all the respondents unanimously agreed that the direct selling industry has the potential to scale new heights in terms of sales volumes, creating self employment opportunities, contributing to India's growth and socio-economic development.

Advent of young population and original social network

India, the country with the second highest population next to China, is home to the world's largest youth population across the globe as over 35% of the population is below the age of 20 years. By 2020, it is expected that 325 million people in India will reach working age, which will be the largest in the world. During the same time period the rest of the developed world will be faced with an ageing population. It is estimated that by 2020, US will be short of 17 million people of working age, China by 10 million, Japan by 9 million and Russia by 6 million. At the same time, India will have a surplus of 47 million working people.

Although, India's emerging demographic dividend would place it better in comparison to other countries in the global economic order in the period ahead, however, this huge consumer base for India has the potential to pose a challenge on the country's infrastructure and also to create enough jobs for its growing working-age population. India though improving its literacy rate, is witness to another crisis in the form of acute industrial labour shortage. The labour crisis has essentially emerged out of the skill gap which could be defined as the lack of requisite skills to serve industrial requirements. In such situations, industries such as direct selling have been the source of employment for many youth belonging to various segments of the society even without specific skills, and have helped to maintain a balance in the economy during every trade cycle.

The number of direct sellers in India has increased by 35% from 3.2 million in 2009-10, 3.9 million in 2010-11 to 4.9 million in 2011-12. Apart from women, this sector is attracting the youth of the country. There are several reasons that Indian students are fast joining this business. Students view this sector lucrative for job opportunity due to factors such as:

- It requires no capital, no shop or staffs,
- It offers income earning opportunities,
- It can be conducted without sacrificing study time as one works on part time basis,
- Students coming from small cities to cosmopolitan cities /metropolitan cities to join educational institute need money to survive the cost of living which do not get fulfilled by mere pocket money
- As discussed, direct selling is promoted through mouth of word publicity, youths have strong social network including siblings, cousins, peers and relatives, and they are able to sell the products efficiently.
- Youth are energetic, self confident, motivated and have innovative ideas to convince customers through their selling skills.
- After getting the degree most industries are unable to grasp the talent, remaining unemployed for long period create frustration and stress on the youth population, direct selling help such youths in offering self employment opportunities and create confidence in them by offering training sessions.

Last but not the least, direct selling industry has helped to channelize the skills of young people in productive direction and create enormous employment among them.

6. Consumers of direct selling: Survey analysis

Direct selling is a social and personal level of trading where direct interaction of sellers and customers is the main focus of the business. Word-of-mouth publicity is the main source of its functioning, the progress and demand of its products can be better judged by the final user's i.e, the consumers of direct selling products. Hence the report cannot be completed without getting an insight of the industry from consumer's perspective. Thus, a survey was conducted amongst a random sample of individuals from different segments of the society for better outlook of the sector and inferences were derived on the responses received.

6.1 Sample Characteristics

The survey was conducted capturing respondents with direct interaction from field and also through e-mails. In total, during the given time period a random sample with size of 1024 respondents was chosen for the study. Since it was not feasible to survey all the cities due to time constraints, responses were received from cities including Delhi, Mumbai, Chennai, Kolkata, Bengaluru, Hyderabad, Chandigarh, Lucknow, Patna, Bokaro, Ambala, Udaipur, Vadodara, Cochin, Ludhiana and Bhubaneswar. Nearly 76 % of the responses were from the participants residing in tier I cities. Out of the total 1024 respondents, 63% are female and remaining 37% are male whereas, 64% of the sample respondents are married, while 36% are single. Women seemed more open to direct selling than men because a large number of the products sold by direct selling have direct appeal to women.

Majority of the respondents surveyed belonged to the age group of 21-30 years, representing 44% of the total sample population. It was followed by individuals within 31-40 years (21%), within 41-50 years (17%) and more than 50 years (12%). The largest share of respondents served the corporate sector including private Indian and Multi-National companies contributing 46% of responses, while 18% served the government, 15% were house wives, 12% self employed and 9% students. Nearly 54% of the survey respondents have family size with 2-4 members, whereas, 36% respondents had a family size of 5-7 and 10% respondents had a family size of more than 7.

Table 6.1: Characteristics of Respondent(s)

Category	Respondent(s) in %
<i>Tier-wise classification</i>	
Tier I	76
Tier II	19
Tier III	5
<i>Gender-wise classification</i>	
Female	63
Male	37
<i>Status-wise classification</i>	
Single	36

Married	64
<i>Age group classification</i>	
Less than 20 years	6
21-30 years	44
31-40 years	21
41-50 years	17
More than 50 years	12
<i>Occupation classification</i>	
Government sector –Central & State	18
Corporate sector (Indian Private Companies and Multi-National Companies)	46
Self Employed	12
Housewife	15
Student	9
<i>Family size classification (number of members)</i>	
More than 7	10
2 4	54
5 7	36
<i>Income group classification (per month)</i>	
INR 10000- INR 20000	8
INR 20001-INR 30000	12
INR 30001-INR 40000	14
INR 40001-INR 50000	26
More than INR 50000	40
<i>Chief family earners classification</i>	
Father	31
Husband	48
Self	21

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

It was revealed, that out of the total respondents, 40% of the representatives have household income¹⁷ more than INR 50,000 per month. It was followed by respondents earning in the range of INR 40,001-50,000 per month (26%) and INR 30,001-40,000 per month (14%) among others. For nearly 48% of the respondents, husbands are the chief earner in their household.

6.2 Awareness and Publicity

Indian direct selling industry is in its take-off stage with 17 years of establishment at organised level; thus, there are three categories of people:

¹⁷ Household income includes income generated by all earning members of the family

- 1) Section of population who are aware of direct selling trading method but unable to recognize it with the word- 'direct selling'. They are aware and recognize few direct selling companies. This section of the participants constitutes 9% of the respondents.
- 2) Section of population those are totally unaware of the 'direct selling' trading method. They are not at all familiar with any names of direct selling companies. This section of the participants comprises of 3% of the responses.
- 3) It was found that 88 % of the sample population are completely well aware and have familiarity with the concept of direct selling.

The familiarity about direct selling relies very much on word of mouth. This medium of marketing has strong reliance among stakeholders. As per the survey findings it was revealed that nearly 80% of the individuals are familiar with or have purchased direct selling products using this means of marketing.

Table 6.2: Source of direct selling publicity

Source of Direct Selling Publicity	Respondent(s)%
Friends	32
Relatives	17
Colleagues	13
Direct Seller	12
Neighbour	6
Internet	14
TV/Radio	4
Newspaper/Pamphlets	2

Word of mouth
publicity
(80 %)

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

The survey revealed that 32% of the respondents have come to know about direct selling through their friends. The word spreads from one circle of friends and acquaintances to the next related circle. Thus, relatives (17%), colleagues (13%) and neighbours (6%) play an important role in the expansion of the business. However, the industry is exploring new opportunities using the social media tools. Lot of networking is going on the Internet, as 14% of the respondents used this source for their information.

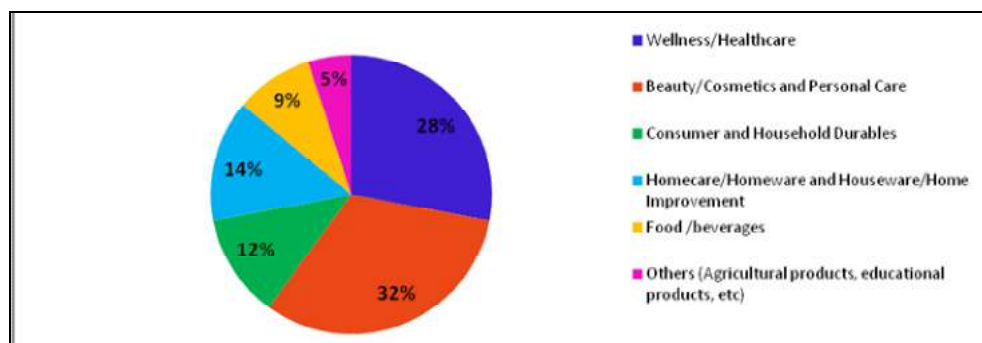
6.3 Type of Product Purchase

The products sold through direct selling are quiet attractive to female consumers. This is indicated from the fact that cosmetics and personal care ¹⁸products have been found to be the most popular product category capturing a share of 32%. With rapid increase in inclination

¹⁸ Make-up products, skin care products, hair-care products, Clothing, lingerie, sleepwear, shoes, fashion jewellery, fashion watches, accessories & personal items

towards a good quality of life among people, it was found that customers preferred to consume wellness/ health care products, capturing 28% share. It was followed by home care/home improvement products¹⁹ (14%), consumer and household durables²⁰ (12%) and food/beverages (9%)

Graph 6.1: Direct selling products purchased by respondents (%)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

6.4 Attributes for purchasing/re-purchasing and non-purchasing of product(s)

There are different motives, situations and needs of a consumer that motivates him/her to purchase or not to purchase a product. At the same time, product appeal plays an important role for pushing a consumer for its demand or non-demand, even without the requirement or necessity.

The survey revealed that 72% of the respondents have purchased/re-purchased direct selling products. Several reasons like personalized attention, the chance to ask questions, chance to try products or have them personally demonstrated and finally the trust and confidence on the word-of-mouth usage by relatives, friends or neighbours have been attributed for this. However, remaining 28% have not purchased/re-purchased any products as they were not very positive on these products.

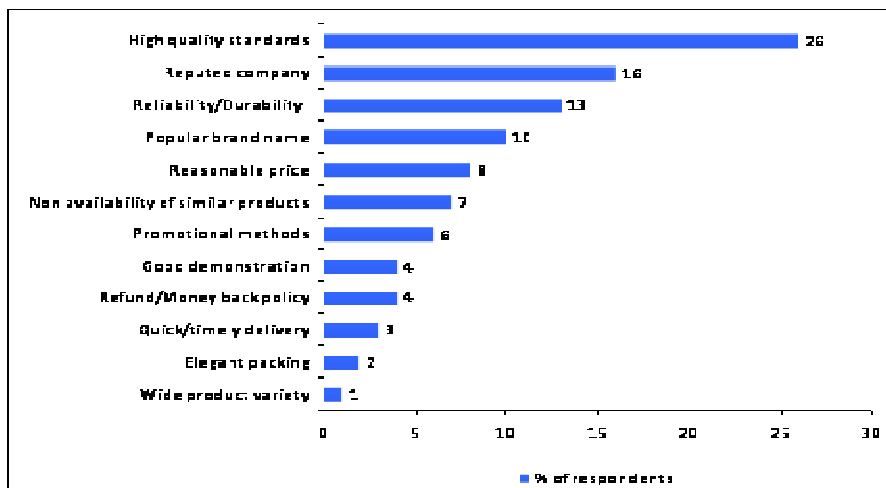
6.4.1 Positive attributes for purchasing/re-purchasing

As per the survey, out of the 737 (72% of the respondents who have purchased/ re purchased products) consumers, 26% of the respondents rely mainly on high quality standards of products for purchasing/re-purchasing. The other attributes include reputed company (16%), reliability/durability (13%), popular brand name (10%) and reasonable price (8%) among others.

¹⁹ Household cleaning products, auto care and equipments, animal/pet care, fitted kitchens, window frames, refurbishing works, doors, security systems, heating systems and other related products

²⁰ Cookware, kitchenware, cutlery, tableware, house wares, gift & decorative accessories, art/framing, gardening items, furniture, home appliances, air & water treatment systems & filters, vacuum cleaners, bedding & linens

Graph 6.2: Factors for purchase/re-purchase (responses in %)

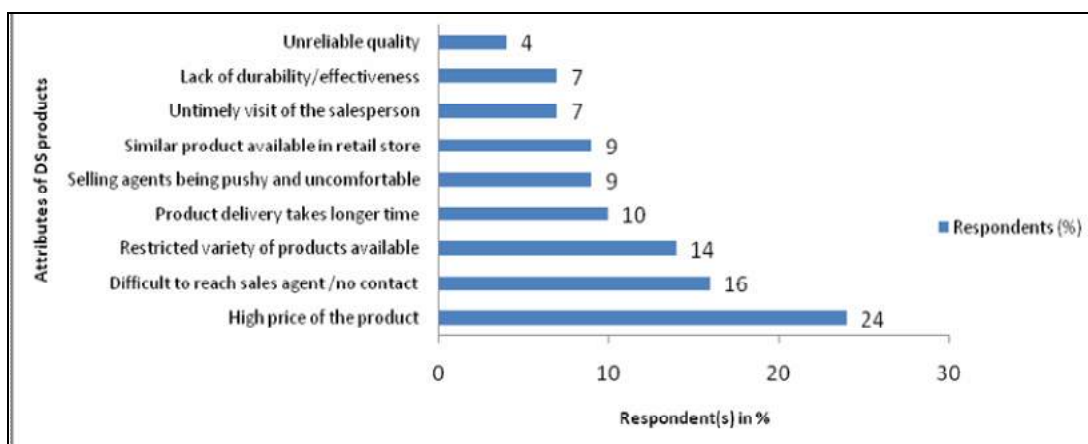


Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

6.4.2 Factors for not purchasing/non-re-purchase

Out of the 287 respondents (28% of the total respondents who have not purchased/non-repurchased), high prices acted as deterrents as it kept nearly 24% of the survey participants away from purchasing it. Around 16% respondents experienced difficulty to reach or contact direct seller of direct selling company and around 14% of the participants felt that there are selective varieties of products available and more options are available at retail outlets.

Graph 6.3: Factors for non purchase/non-repurchase (responses in %)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

In some cases, consumers reported that direct sellers came across as an intrusion, and that they were concerned about letting strangers into their homes, being subjected to high sales pressure

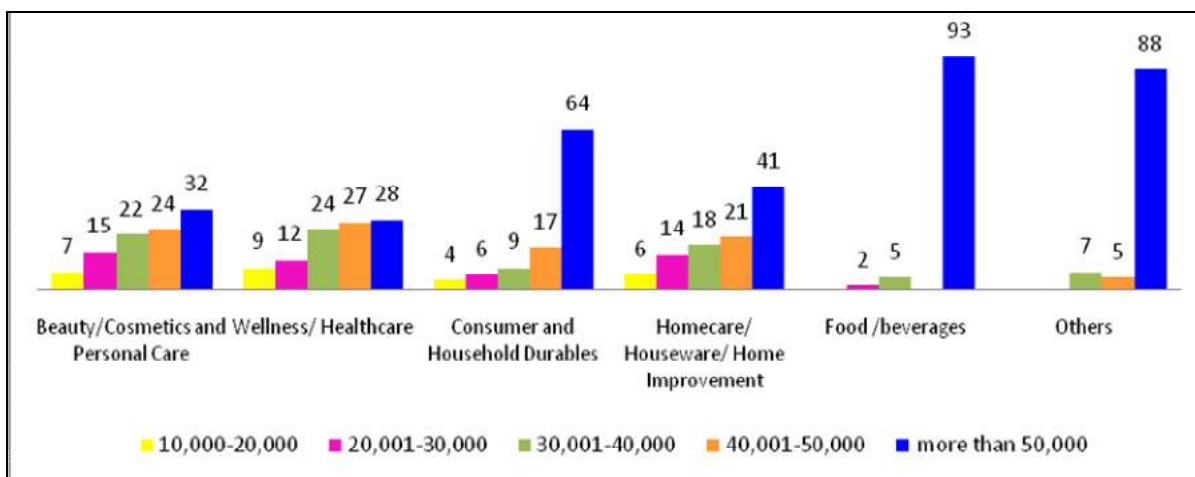
and the use of misleading and unfair sales tactics, ending up buying products they didn't need and paying an unfair price for products.

6.5 Pattern of household income expenditure on purchase of direct selling products

Respondents that fall in income bracket of INR 10,000-20,000 per month make very few purchases on direct selling products. Out of the total 1024 respondents, 9% in this income bracket have purchased wellness/healthcare products, followed by cosmetics/personal care products (7%), home care/home improvement (6%) and cosmetics (2%).

The survey revealed that the income group of more than INR 50,000 per month have captured the maximum share of purchases made in all product categories. In cosmetics/personal care products, maximum purchase was made by consumers with income more than INR 50,000 per month contributing a share of 32%. This was followed by consumers in income group of INR 40,001-50,000 per month at 24% and INR 30,001-40,000 per month at 22%. Similarly, for wellness and health care 28% was captured by the highest income group followed by 27% by the second highest income class. However, in case of other products it was found that 88% share was captured by the highest income group, whereas marginal shares of 7% and 5% were captured by INR 30,001-40,000 category and INR 40,001-50,000 category respectively.

Graph 6.4: Household income vis-à-vis share in purchase of direct selling products (%)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

To conclude, high prices associated with these products have made these products accessible to selective sections of people. However, larger sections of the consumer groups are being attracted towards it, due to rising value perception and demonstration effect. With progressive diversification of direct selling products and expansion of manufacturing base, it is expected that the sector will be able to reach out to larger unexplored markets.

7. Direct selling contribution to CSR

The term 'Corporate Social Responsibility (CSR)' came into common use in the late 1960s and early 1970s after many multinational corporations formed the term stakeholder, meaning those on whom an organization's activities have an impact. Corporate Social Responsibility has various definitions from those impacting stakeholders to advocates including charitable efforts and volunteering. CSR may be based within the human resources, business development or public relations departments of an organisation, or may be given a separate unit reporting to the CEO or in some cases directly to the board. Some companies may implement CSR-type values without a clearly defined team or programme.

The World Business Council for Sustainable Development in its publication *Making Good Business Sense* by Lord Holme and Richard Watts used the following definition.

Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large

The CSR definition used by Business for Social Responsibility is:

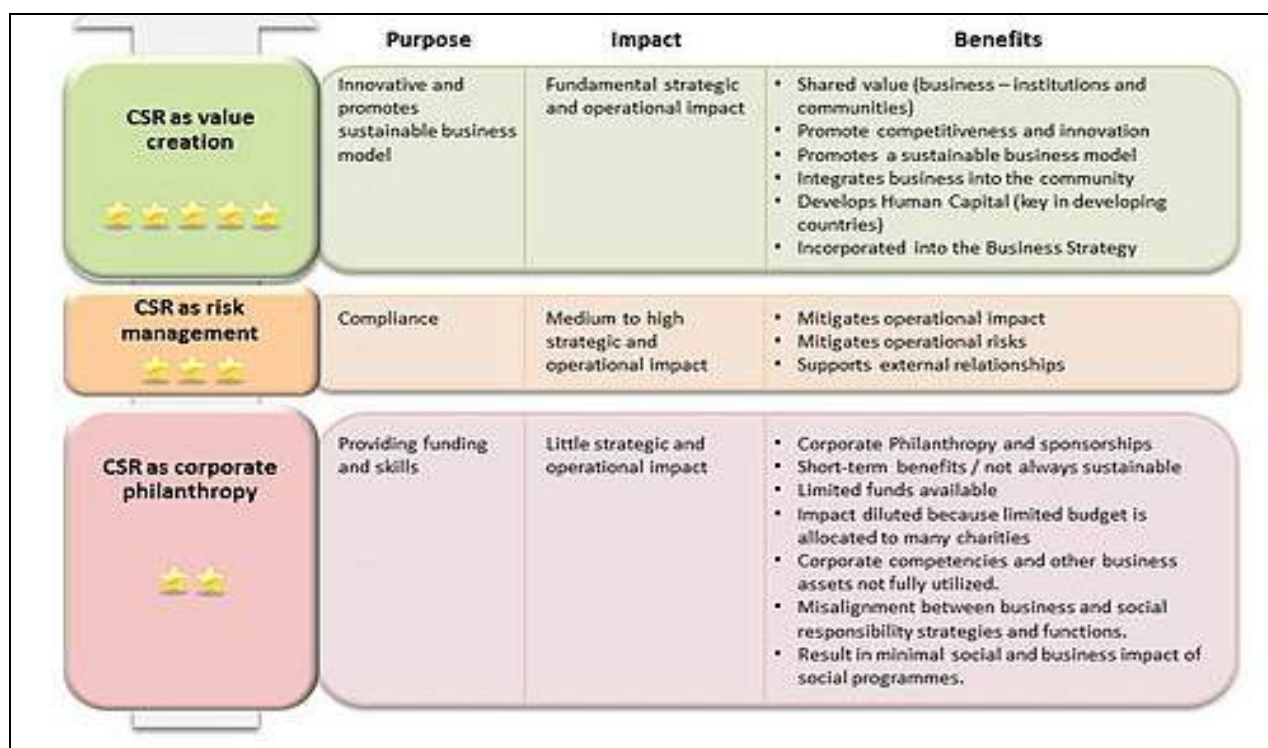
Operating a business in a manner that meets or exceeds the ethical, legal, commercial and public expectations that society has of business

The European Commission gave CSR definition as:

A concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment. A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

A more common approach to CSR is corporate philanthropy. This includes monetary donations and aid given to local and non-local non profit organizations and communities, including donations in areas such as arts, education, housing, health, social welfare, and the environment, among others, but excluding political contributions and commercial sponsorship of events. Some organizations do not like a philanthropy-based approach as it might not help build on the skills of local populations, whereas community-based development generally leads to more sustainable development.

Graph 7.1: Where should big corporations spend their CSR resources



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

The basic objective of CSR in these days is to maximize the company's overall impact on the society and stakeholders. CSR policies, practices and programs are being comprehensively integrated by an increasing number of companies throughout their business operations and processes. A growing number of corporate feel that CSR is not just another form of indirect expense but is important for protecting the goodwill and reputation, defending attacks and increasing business competitiveness.

Companies have specialised CSR teams that formulate policies, strategies and goals for their CSR programs and set aside budgets to fund them. These programs are often determined by social philosophy which have clear objectives and are well defined and are aligned with the mainstream business. The programs are put into practice by the employees who are crucial to this process. CSR programs range from community development to development in education, environment and healthcare etc.

7.1 CSR undertaken by direct selling companies in other countries

In China, 15 direct selling corporations which are certified by Ministry of Commerce signed Self-discipline Pact on Direct Selling Companies in Beijing together. It is the specific step towards implementing corporate social responsibilities after these companies released their corporate

social responsibility reports together. The direct selling corporations also promise that they will not only operate in accordance with Regulations for the Administration of Direct Selling, but also serve customers and direct sellers with better business ethics. The general provisions of the Pact emphasizes that direct selling companies should operate their business according to law and be supervised by governments and the society. Particularly, it highlights that companies should pay taxes, fix price, advertise and train all in accordance with law. Moreover, it requires these companies respect and compete with each other equally.

7.2 CSR in India

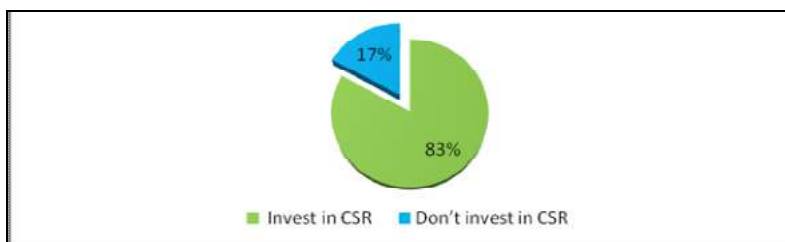
The CSR measures are part of a new Companies Bill that has been effective for several years. The Companies Act of 1956, which is currently the rule of law, has several clauses inappropriate to the current business and economic environment. A revision process was started in October 2003 and a Companies Bill 2008 was tabled in Parliament. That legislation lapsed with the dissolution of the Lok Sabha (the lower house of Parliament) in 2009. While the Companies Bill contains many provisions that are of great importance to industry, it's the CSR piece that has created the most debate.

Going ahead, if the Bill is implemented, corporate social responsibility (CSR) would become mandatory for the first time in the world in any country. The statement advocates that those companies with net worth above Rs. 500 crore, or an annual turnover of over Rs. 1,000 crore, shall earmark 2% of average net profits of three years towards CSR. In the draft Companies Bill, 2009, the CSR clause was voluntary, though it was mandatory for companies to disclose their CSR spending to shareholders. It also suggested that company boards should have at least one female member.

7.3 CSR by direct selling companies in India

Around 77 direct selling companies participated in the survey, of which 61 direct selling firms replied on CSR, of which almost 83% of the companies revealed that they contribute to various CSR activities whereas, 17% of the companies do not participate in CSR activities. The average share of CSR spending as a percentage of gross revenue by the companies ranged between 0.05% - 0.75% in 2010-11 and 0.02% - 1% in 2011-12.

Graph 7.2: Pattern of investment in CSR

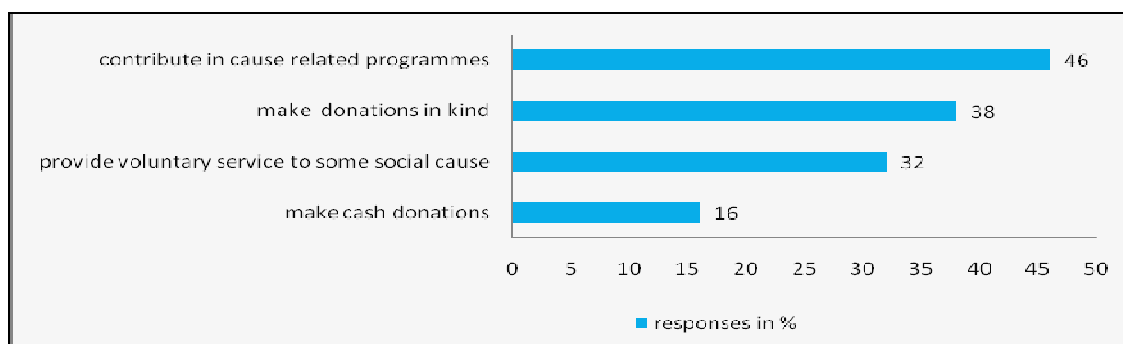


Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

CSR spending as a percentage of Gross revenue

In terms of mode of contribution by direct selling companies, nearly 46% contributed to cause-related programmes, whereas 38% made contribution in kind and 32% companies provided voluntary service to some social cause. Only 16% companies made cash donations towards CSR activity. More than 50% of the companies contribute in CSR activity using more than 2 modes of contributions.

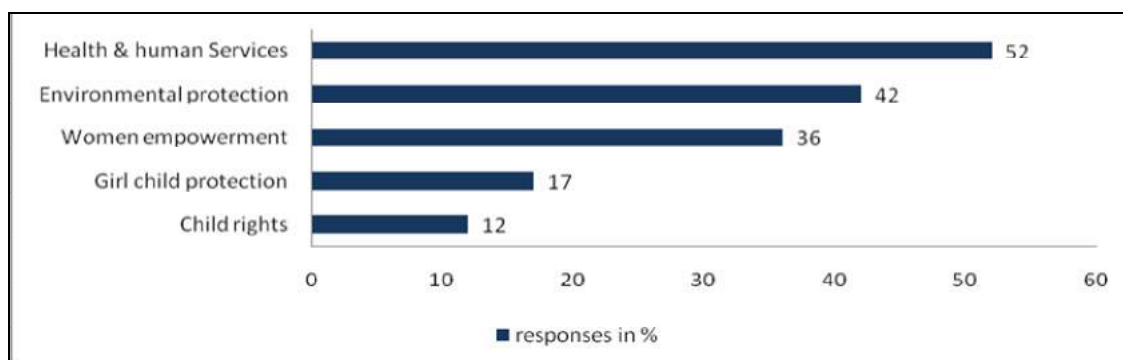
Graph 7.3: Mode of contribution to CSR activities



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

There are various areas that have been supported by direct selling companies. However, the area that tops the chart with highest attention of 52% companies is health and human health. It is followed by environmental protection (42%) and women empowerment (36%). Least attention was given to girl child protection and child rights with contribution from 17% and 12% companies respectively.

Graph 7.4: Channel of investment (Area of support for CSR activities by direct selling firms)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

Survey revealed that the direct selling firms have contributed to the society in a very positive way through their CSR initiatives. Their contributions have spread across various segments and have benefited fruitfully to several sections of the economy. It was noted that more than 60% of the

companies support more than one area for CSR activity and nearly 30% of the direct selling companies take up more than 3 areas for CSR activities.

8. Policy interventions & impact

Direct selling industry is a rapidly emerging and steadily growing as an alternative sales distribution channel, boosting self employment. It has immense importance to the economic system, contributing to the exchequers, providing financial stability and encouraging women empowerment. However, the industry has been victimized by frequent fraudulent activities that have impacted the goodwill direct selling businesses. Several countries have undertaken initiatives in this direction to address the issue of regulation in the industry.

Table 8.1: Summary of country specific guidelines

Country	China	Indonesia	Malaysia	Singapore	United Kingdom
License requirement	Yes	Yes	Yes	Yes	No
Fixed days/timing for operation	All days	All days	Direct selling cannot be conducted either on Sundays or on Fridays (depending on the State's weekend), on public holidays and from 7 pm to 9 am on other days	All days	All days
Cooling off Period	7 days	number of days not mentioned	As specified in Section 2, 23, 24(1), 25 and 26 of DSA 1993 (10 days)	Voluntarily by DSA of Singapore for 7 days Under CPFTA it is 3-day cooling-off period	Applicable under laws of The Consumer Protection (Cancellation of Contracts Concluded away from Business Premises) (Amendment) Regulations 1988 (14 days)

Advertisement	Literature promotions, advertisements and offers via postal mail should not include the information, statements, photographs or illustrations of products that are deceptive and misleading	Literature promotions, advertisements and offers via postal mail should not include the information, statements, photographs or illustrations of products that are deceptive and misleading	No person shall advertise for the supply by mail order, any goods or services except in accordance with this Act or the regulations	Where applicable, product claims and product registration shall be in compliance with the requirements of the Health Sciences Authority, Ministry of Health, the Advertising Standards Authority of Singapore and or any other authorities where appropriate	Comply with the British Codes of Advertising Practice and Sales Promotion where relevant and any other recognised self regulatory codes.
Law or regulation banning trading/ Anti-Pyramid selling	Yes	Yes	(Yes) Banned under Section 7 of the DSA 1993	(Yes) Prohibited under Multi-level Marketing and Pyramid Selling (Prohibition) Act 1973. Under Multi-level Marketing and Pyramid Selling (Excluded Schemes and Arrangements) Order 2001 MLM selling or arrangements that satisfy conditions	(Yes) Illegal under Fair Trading Act 1973 (as amended by the Trading Schemes Act 1996).
Laws containing various provisions requirements and product returns : direct	No specific regulation	Yes	No specific regulation	No specific regulation	No specific regulation

selling					
Prohibition on Products	No information	No information	No such specification but before introducing new products direct selling companies must get approval from the authority before distributing the products.	Some prohibitions on certain class of products	Generally no restrictions except for: Wines & Spirits – local authority license is required. Drugs – Pharmacy registration is required. Regulated financial services like life insurance and investments products.
Taxes and Fees – individual	No information	No information	Responsibility lies with the distributors/ Corporate tax and information return	Pay Income Tax /Corporate Tax	Treated as any other tax payer and taxes payable as laid down by Inland Revenue. Applicable for Corporation Tax (1998). Vat @ 17.5% on the retail price of all goods sold by a VAT registered direct selling company.
Nature of Guidelines	Very Strict	Mild	Very Strict	Mild	Strict

Source: PHD Research Bureau, compiled from various sources

In light of the above comparative analysis of the direct selling laws and guidelines at international level, it has been observed that all the countries have framed their national laws regarding direct selling in the interest of the consumer and to help direct selling business to prosper vis-à-vis avoiding fraudulent practices through enforcement of mild to strict laws.

8.1 Policy interventions in the Indian direct selling industry

With the increasing importance of direct selling industry in India, several fraudulent practices by such fly-by-night operators in the unorganized sector have surfaced during the recent times. As per the media reports, few of the notorious cases of such fraudulent activities are the case of RCM fraud of INR 3000 crore, Speak Asia worth INR 2000 crore, among others. Such fraudulent activities pose a great threat to the direct selling industry. It has been noted and brought to light by several media reports constantly that the fraudulent scheme operators adversely affect the business of the overall direct selling industry, shakes buyer's confidence, leads to supererogatory/ unwanted police harassment, de-motivation of the direct seller and above all it damages the reputation and image of genuine market player as a whole.

It was the common opinion that centralised legislation across India will enable direct selling industry to smoothly conduct their business by removing fraudulent scheme operators. Further, it will increase the self employment generation, investor confidence and hence lead the industry to a higher growth trajectory. A separate body to prevent small players from entering the sector without adequate infrastructure and implementation plan was also recommended.

The need for organising awareness programmes jointly by the industry and the government to educate the public regarding this business model and spread awareness about the ongoing scams in the direct selling market is pertinent. Further, an industry regulatory framework needs to be created that ensures transparent dealings by the players, guards against fraudulent scheme operators operating under the garb of direct selling industry and imposes heavy penalties for such frauds.

The Indian Direct Selling Association has also initiated 'direct selling knowledge and discussion forums' to brainstorm on issues related to such activities and raise awareness for consumer protection. Thus, in light of the above cases of deceptions, recently Central and State government have intervened to regulate the activities of the industry through various guidelines for direct selling industry.

8.2 Government initiatives

At the Central level, there are several key government ministries/organisations involved in the framing of direct selling guidelines in India. It includes the Ministry of Corporate Affairs, Ministry of Consumer Affairs and Law, the Department of Financial Services under the Finance Ministry, the Securities and Exchange Board of India (SEBI) and the Central Economic Intelligence Bureau (CEIB). The Central government had constituted a committee to strengthen the regulatory and supervisory cooperation among agencies of both the State and Central governments with regards to Ponzi, i.e., formats involving chit funds, and informal investment formats. The Central Government can file an application for an order against oppression and mismanagement of the

company under Sections 397 to 401 of the Companies Act. These provisions empower the Court to order corrective measures, and the Court may even replace the management of the company.

The above ministries/departments/organisations have highlighted laws for MLM companies dealing in financial services and pyramid selling to regulate and control financial frauds by fly-by-night operators. However, the provision of Prize Chit and Money Circulation Scheme (Banning) Act 1978 do not apply to direct selling companies as direct selling is different from financial pyramid selling. Almost all the Indian states regulate the activities of the direct selling industries under the Prize Chits and Money Circulation Schemes (Banning) Act 1978 and Chit Funds Act 1982.

At state level, the sale of goods by direct selling companies are regulated under the Indian Contracts Act, Sale of Goods Act and Consumer Protection Act which legally bind these companies to deliver products in the interest of consumers. However, two Indian states have drafted out more detailed and focused guidelines for direct selling companies including Kerala and Rajasthan in November 2011 and October 2012, respectively.

The state governments have provided guidelines for direct selling companies which encompass rules involved with setting up of direct selling firms and marketing of products. They should not function like money chains or resort to tax evasion. Compulsory subscription or insurance would not be permitted at any stage. The consumer should get an opportunity to examine samples before buying. The companies would be required to provide full information on their products and sellers. Salesmen should have identity cards issued by a government agency and should take advance permission for selling in various areas. They should issue clear records of sales to the customer.

The companies should have the licence to do business in India and should file all mandatory returns. They should have trademarks or licences. They should maintain a regularly updated website giving details of their products, services, price, and other details, besides information on their companies. According to these guidelines, any direct selling company would be considered 'valid' if it does not directly ask seller or a consumer to purchase any product or collect membership fees as a condition precedent for enrolment.

**Kerala Government sets guidelines for direct selling
(As per GO (MS) No. 190/2011/VYA dated 12.09.2011)**

The following guidelines were set by the Kerala State Government to regulate sale of goods and services outside retail establishments known as 'direct selling' and to provide for protection of the consumers who purchase goods and services from direct sellers.

These guidelines will remain in force till an appropriate legislation is enacted for the said purpose.

The following conditions are to be complied with by the direct selling entities and direct sellers.

a) The direct selling entity should be a legal entity authorised to conduct business in India and which files all returns as mandated by law.

b) The direct selling entity should be a valid licensee or a permitted user of a registered trademark which identifies the promoter, goods or services distributed.

c) The direct selling entities should maintain websites with complete details of their products/services, terms and conditions, price, details of direct sellers and all relevant information about the company and business. The websites shall be updated regularly and shall furnish all necessary information required by the District Industries Centre.

d) The direct selling entity shall not require a direct seller to purchase any product or collect any membership fee as a condition precedent for enrolment.

e) The compensation to direct sellers shall only be based on the quantum of sale of goods and services.

f) The direct selling entity should ensure that a consumer purchasing goods or services from a direct seller shall have at least thirty days from the date of delivery of such goods and services to return the same and to receive full refund.

g) A direct selling entity shall require direct sellers to provide the following information to the consumers at the time of the sale.

i. Name, address and telephone number of the direct seller and direct selling entity.

ii. The direct selling entity shall display details of their direct sellers on their websites.

iii. The direct seller entity/direct sellers or their representatives shall at all times carry identity proof of their respective companies along with any photo IDs issued by any Government agency.

iv. A description of the goods or services to be supplied.

v. The order date, the total amount to be paid by the consumer along with the bill and receipt

vi. Time and place for inspection of the sample and delivery of goods.

vii. A notice to the consumer of the consumer's rights to cancel the order and to receive a full refund of sums paid

viii. Details regarding the complaint redressal mechanism of the direct selling entity.

h) The direct sellers/direct selling entities who call at any premises of the customers for the purpose of negotiating direct sales shall take prior permission of appointment, immediately indicate the purpose of the visit before entering the premises, identify himself/herself with credentials and shall leave the premises at the request of the occupier of the premises or any person acting with the actual or implied authority of the occupier.

II The sale activities not following the above guidelines shall not be considered as direct selling and would be dealt appropriately under relevant provisions.

**Rajasthan Government lays condition for permissible
direct selling (As per guidelines no. f5(2) Ind /1/2012
dated 05/10/2012)**

- A direct selling entity is one having sales tax / Vat, Income Tax, TDS, Service Tax and Shops and Establishment registration and other license as may be required as per the law and regulations of its principle place of business.
- The direct selling entities should maintain websites with complete details of their products and/or services, terms and conditions, details of direct selling and all relevant information about the company and business in detail. The websites shall be updated regularly and shall furnish all necessary information as required by any law or regulations/guidelines as applicable.
- Shall pay sales commission at the agreed rate within the agreed period as per the terms stipulated in the distribution/direct seller appointment agreement, on the sales affected directly by direct seller/distributor or through his team.
- Shall give facility to verify the authenticity of the Direct seller / Distributor through the official website on furnishing the Unique Identification number of the Direct Seller/Distributor.
- Should have a consumer grievance cell that endeavors to redress of consumer grievances within 7 days from the date of making such complaints. A direct selling entity shall maintain a consumer complaint register and shall record the complaints, settlement/outcome. Such register shall made available for inspection as and when required by the FDSA
- Website shall have provision for registering consumer complaints.
- The direct selling entity shall provide photo identity cards to the direct seller/ distributors and direct seller/ distributor shall visibly display the identity card at the time of soliciting the sales.
- Shall not allot more than one distributorship to a single individual/entity.
- Shall not pay sales commission unrelated to their respective sales volume.
- Shall not sell goods or services with the knowledge that such goods or services are inferior or exceeded its validity period as per the manufacturer or service provider.
- No sale should be affected by the Direct Selling entity on accepting "cash". All sales and consideration for direct sale transaction should be affected through bank.

8.3 The Indian industry perspective on the guidelines

Although, the growth of the Indian direct selling industry has remained resilient, with emerging threats from the fraudulent practices undertaken by the fly-by-night operators in the unorganized market, it is imperative to get an insight of the industry perspective on the regulatory framework governing the sector.

The survey revealed that around 73% of the direct selling respondent firms feel that the recent guidelines introduced in some state on the Indian direct selling industry is a positive move, and has incentivised the direct selling companies in the market and would act as a catalyst in attracting foreign investment in this sector. However, 27% of the companies felt that implementing these guidelines in only few states may not be sufficient to wipe out fraud practices and fly-by-night operators from the market.

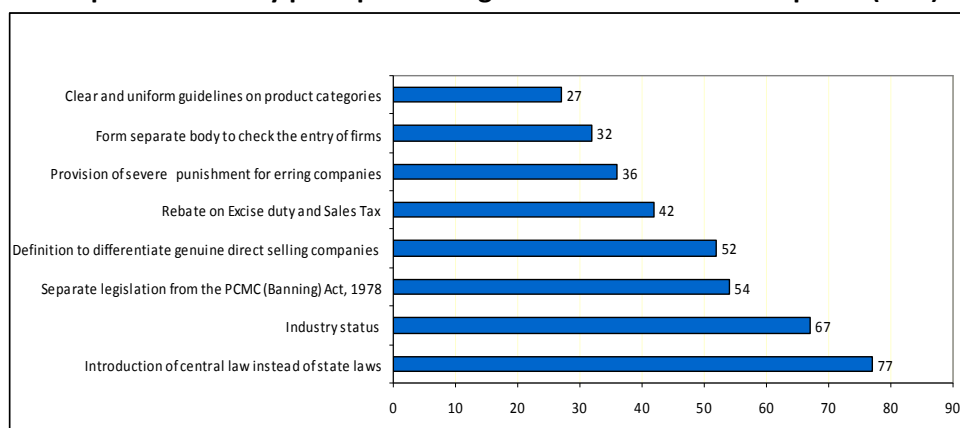
As many as 77% of the direct selling companies have expressed the need for central guidelines and regulation for direct selling industry, as at state level these companies are already governed by Sales Tax act, MRP Act, Contract Act etc. They felt that there should be only one set of standard guidelines across the country.

However, 6% companies favoured introduction of these guidelines at individual state level, as they felt that these policy interventions should be customized and moulded according to the business needs in the individual states. To effectively mitigate fraudulent practices, 32% suggested that a separate body should be formed to check the entry of new players into the market. About 36% of the companies recommended strict laws and heavy penalties/punishments to regulate fraudulent companies.

According to the survey, around 67% of the direct selling firms demanded industry status and as many as 54% firms demanded a separate legislation, from the Prize Chits and Monetary Circulation scheme (Banning) Act, 1978 as it only governs chit funds but does not apply to direct sellers. Nearly, 42% direct selling companies suggested that the government should set a standard of manufacturing and consider those companies that maintain and fulfil the standards, allowing them some rebate on Excise duty and Sales Tax so that they are able to offer competitive prices to the customers.

About 27% companies want clear and uniform guidelines on product categories. There is a demand of 52% direct selling companies to provide a definition to differentiate the genuine direct selling companies from fraudulent night-by-operators working without any credible product line.

Graph 8.1: Industry perceptions on government initiatives required (in %)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

Note: The total responses do not add to 100% as companies have provided more than 1 response

9. Direct selling: Beating slowdown

The world economy is extremely volatile at this stage and the growth prospects across the advanced, emerging and developing economies have weakened. Investor's confidence across the globe has fallen sharply and downside risks are looming large. Against a backdrop of unresolved structural fragilities, a number of shocks have hit the world economy in the last year. Downside risks to growth emanating from the global macroeconomic environment are now adjudged to be more elevated in the coming times.

The weak growth momentum and policy uncertainties are impacting the macroeconomic outlook of emerging and developing economies. The IMF has scaled down its projection of world GDP growth for 2013 to 3.5% and for 2014 to 4.1%. In a nutshell, the growing sluggishness in the world economy front is here to persist longer on the wake of concerns over the sovereign debt problems in the euro area in particular and other advanced economies in general. With the contagion of Euro- Zone crisis spreading across the globe, slowing of consumption demand is evident from the decline in private consumer expenditure amidst major advanced economies and Newly Industrialized Asian Economies (NIAEs). The growth in private consumer expenditure fell from 1.8% in 2010 to 1.3% in 2012 for major advanced economies and from 4.7% in 2010 to 2.4% in 2012 for NIAEs.

Table 9.1: Private consumer expenditure across regions/countries (Y-o-Y % Change)

Countries	2013	2012	2011	2010
United States	2.2	1.9	2.5	1.8
Euro Area	-0.3	-1.1	0.1	1
Japan	1	2.5	0.1	2.6
Major Advanced Economies	1.4	1.3	1.5	1.8
Newly Industrialized Asian Economies	3.2	2.4	3.4	4.7

Source: PHD Research Bureau, compiled from IMF

The Indian economy too is going through a slow down due to several global and home grown vulnerabilities. Spill overs to the Indian economy through trade, finance and confidence channels could increase in the coming times. Although it has grown at a rate of 9.3% during FY 2011, the growth rate decelerated to 6.2% during FY 2012 and it is estimated to further slow down to 5% during FY2013. The lead economic indicators like IIP is decelerating sharply, core industries production is growing lesser than expected and manufacturing growth is falling. Despite the deceleration of crude oil prices below US\$90 per barrel during the recent months, the Wholesale Price Inflation is still hovering in the uncomfortable zone.

Further, the world-wide economic slowdown has dampened exports to a large extent in the face of weakening global demand in general and re-emergence of recession in advanced economies in particular. This combined with the slowing down of domestic demand due to rising costs of living such as fuel and energy prices on the one hand and high costs of money/borrowing costs on the other hand suggests further downside risks to real GDP growth.

However, despite the slowdown in Indian economic growth and deceleration in industrial output, the direct selling industry has shown considerable resilience, sustaining steady growth over the years. It was found that the industry revenue grew at 9% during 2006-07, at 13% during 2007-08, at 17% during 2008-09, at 24% during 2009-10 and at around 27% in 2010-11. A marginal decline in growth of sales revenue was noticed in 2011-12 at 22% due to stagnation in consumption demand owing to the persisting slowdown in the economy.

The survey revealed that about 79% of the companies felt that there has been no impact on revenues or direct sellers due to the economic slowdown, while 14% felt that though, revenues have been impacted, but direct sellers have grown over the previous year. Another 7% felt that the level of both revenues and direct sellers has fallen over the previous year.

Table 9.2: Impact of economic slowdown on direct selling business

Category	Percentage of respondents
There has been no impact on revenues or direct sellers	79%
Revenues have been impacted, but direct sellers have grown over previous year	14%
The level of both revenues and direct sellers has fallen over the previous year	7%

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

It is indeed encouraging to find that the direct selling industry has firmed its ground in the economy and with growing value perception of consumers, awareness about the product range, increasing accessibility to products and growing demand in the smaller towns, the industry has enormous potential to enhance its market presence in the coming times.

10. Challenges faced by direct selling industry

The Indian direct selling industry is well poised to occupy an important position in the international market. However, there are few issues that have been challenging the growth of the sector. The issues are as under:

In India there are various formats of shopping model including kiranas, grocery, malls, departmental stores, super markets, chain stores, hyper marts, kiosks, tele-shopping, internet shopping, direct selling etc. Each of these formats has their own set of consumers. Among all these modes, only direct selling rely 80% on word-of-mouth publicity. There are only a handful of consumers who have their relatives/friends/acquaintances as direct seller; it is difficult to trust and build confidence on unknown direct seller.

In India, there are broadly 18 local languages and individuals have emotional attachment to their dialects. There is a concern in identifying direct sellers with local mother tongue to convince consumers for purchasing the product as the business develops on personal attraction. There are few elite open minded groups of people who are willing to hear others and experiment different products. However, there are still people who are uneducated, lack knowledge, are superstitious and are not ready to accept new market methods. It is a difficult task to convince and change the mindset of this group of people.

The direct selling industry in India is governed by the state legislation and its operations are supervised by a large number of Ministries or Departments at the Centre, State and Local levels. The multiplicity of regulatory bodies has resulted in a tedious and complicated policy framework which delays the process of setting up pan-India supply chain and manufacturing facilities, hindering the smooth performance of this sector.

Table 10.1: Summary of challenges faced by direct selling industry

Challenges	Suggestions
High incidence of fraudulent companies	Stricter registration policy by Government
Absence of regulatory law/guidelines	Implementation of a single standard workable policy
Lack of training and orientation for leaders	Increase the number of leadership trainings
Low environmental clearances, political risk, and poor logistics and distribution channels	Implementation of a single standard workable policy
Poor leader motivation	Income enhancement
Contagion effect of fraud companies on the reputation of legitimate companies	Implementation of a single standard workable policy
Attrition	Increase the number of trainings provided
Harassment by authorities	Implementation of a single standard workable policy
Compliance of special guidelines for MLM issued by Kerala State government	Review the guidelines in terms of international MLM business model and practices.

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

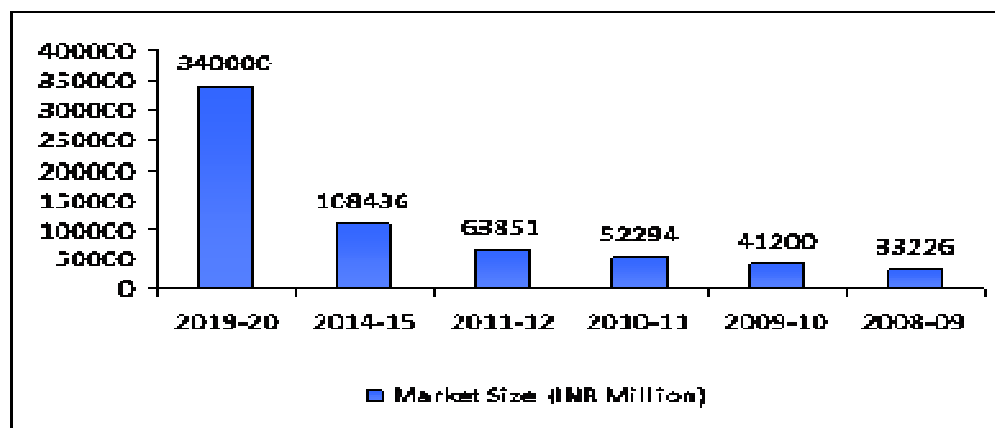
11. Future outlook of Indian direct selling industry

The growth prospects of the industry has been analysed in the light of the growth perceptions of the respondents' companies.

Industry growth outlook

Going ahead, growth prospects of the industry are bright which is set to take off, driven by strong consumer base and expanding markets. The survey revealed that industry was positive about the robust growth of the direct selling industry in the coming years. Respondents felt that the size of the industry is estimated to leap-frog by 2014-15 scaling upto INR 1,08,436 million from the present level of INR 63,851 million.

Graph 11.1: Market size of Indian direct selling industry (INR million)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

Though the growth of the industry vary across its different segments like organized and unorganized sectors, however, overall the industry is slated to grow at an average of more than 20% in the next three years by 2015. Further, they felt that in the long term, over next three to seven years by 2020, industry could consolidate its position across the corners of the country and grow at an average rate of 25% scaling up to INR 3,40,000 million.

Table 11.1: Growth perception of direct selling companies

S.No.	Term	Growth rate (%)
2	Medium Term (Within next 3 years)	20
3	Long Term (Next 3-7 years)	25

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2011-12

According to the respondents surveyed, health insurance holds the strongest future potential in Indian direct selling sector followed by electronic products including computers and consumer durables while agricultural products including tea could also be a potential are with high market

share in the years to come. These potential industry segments put together could contribute to a future estimated market of around INR 45,000 million to gross sales revenue of the industry.

12. Conclusions

The Indian direct selling industry is well poised to occupy an important position in the international market. The industry has notched up remarkable growth over the years and has grown at 22% during 2011-12, expanding from INR 52,294 million in 2010-11 to INR 63851 million in 2011-12.

The survey revealed that the share of Northern region in sales revenue moved from 15% in 2010-11 to 20% in 2011-12 and on the contrary, the share of Southern region in sales revenue has declined from 44% in 2010-11 to 38% in 2011-12. The share of Eastern region increased marginally from 14% in 2010-11 to 15% in 2011-12, while the share of North-East increased from 7% in 2010-11 to 10% in 2011-12. However, the share of Western region declined from 20% to 17% during the same period.

The direct selling industry has contributed significantly to employment generation over the years, and momentum has been kept up this year as well. The total distributor base²¹ of the Indian direct selling industry during 2011-12 stands at 4,853,232 while the growth of total distributor's network stands at 22.5% in 2011-12 over 2011-12.

Although, self employment has grown steady keeping up a good growth pace, the relatively slow growth in sales revenue, due to stagnation in demand has impacted the productivity of direct sellers. The per-capita revenue generation dipped marginally to INR 13,156 in 2011-12 from INR 13,197 in 2010-11.

The share of women has always been more than 50% in India. However, the employment in the sector among men has picked up rapidly not only as a part time option but as a lucrative full time career option. The share of men (direct sellers) has increased from 36% in 2010-11 to 37.5% in 2011-12.

The total taxes paid as reported by the IDSA member companies including both direct tax and indirect tax amounted to INR 8,212 million posting a growth of about 27% in 2011-12 over INR 6,470 million in 2010-11. The percentage of total taxes in total sales revenue generation has increased from 21.5% in 2010-11 to 21.8% in 2011-12.

Around 77 direct selling companies participated in the survey, of which 61 direct selling firms replied on CSR, of which almost 83% of the companies revealed that they invest in various CSR

²¹ Distributors include direct sellers and independent sale consultants.

activities whereas, 17% of the companies do not participated in CSR activities. The average share of CSR spending as a percentage of gross revenue by the companies ranged between 0.05% - 0.75% in 2010-11 and 0.02% - 1% in 2011-12. There are various areas that have been supported by direct selling companies. However, the area that tops the chart with highest attention of 52% companies is health and human health. It is followed by environmental protection (42%) and women empowerment (36%). Least attention was given to girl child protection and child rights with contribution from 17% and 12% companies respectively.

The survey revealed that around 73% of the direct selling respondent firms feel that the recent guidelines introduced in some state on the Indian direct selling industry is a positive move, and has incentivised the direct selling companies in the market and would act as a catalyst in attracting foreign investment in this sector. However, 27% of the companies felt that implementing these guidelines in only few states may not be sufficient to wipe out fraud practices and fly-by-night operators from the market.

The respondents were very positive about its growing profits and felt that the industry has the potential to maintain the price-cost margins above 20% in the coming years too. As per the survey, the main drivers of growth in this sector are high quality standards of products, reliability/durability, promotional measures and good demonstrations, among others.

It has been found that despite the slowdown in Indian economic growth and deceleration in industrial output, the direct selling industry has shown considerable resilience, sustaining steady growth over the years. The survey revealed that about 79% of the companies felt that there has been no impact on revenues or direct sellers due to the economic slowdown, while 14% felt that though, revenues have been impacted, but direct sellers have grown over the previous year. Another 7% felt that the level of both revenues and direct sellers has fallen over the previous year.

Going ahead, growth prospects of the industry are bright which is set to take off, driven by strong consumer base and expanding markets. The survey revealed that industry was positive about the robust growth of the direct selling industry in the coming years. Respondents felt that the size of the industry is estimated to leap-frog by 2014-15 scaling upto INR 1,08,436 million from the present level INR 63,581 million. Though the growth of the industry vary across its different segments like organized and unorganized sectors, however, overall the industry is slated to grow at an average of more than 20% in the next three years by 2015. Further, they felt that in the long term, over next three to seven years by 2020, industry could consolidate its position across the corners of the country and grow at an average rate of 25% scaling up to INR 3,40,000 million.

According to the respondents surveyed, health insurance holds the strongest future potential in Indian direct selling sector followed by electronic products including computers and consumer durables while agricultural products including tea could also be a potential area with high market

share in the years to come. These potential industry segments put together could contribute to a future estimated market of around INR 45,000 million to gross sales revenue of the industry.

However, at present direct selling is challenged by hurdles like lengthy procedures related to registrations of the company, attaining and renewing licences, stamp duty and municipality zoning restrictions. In addition to this, the regulatory framework is overlapped by rules and regulations at district level, state level and central level. Hence, decentralization of acts and rules delays regulatory mechanism with loopholes.

The multi-agency clearance mechanism should be eliminated through speedy implementation of single window clearance facility to expedite the process of approvals. The government should provide incentives to the industry in terms of lowering costs of doing business which would be critical to foster employment generation vis-à-vis absorb expanding young work-force and rapid growth momentum in the sector.

The survey observed that the recent guidelines introduced by the central as well as state governments would go a long way in decentralizing acts and rules, helping in speeding up procedural bottlenecks and above all intervened to regulate the fraudulent activities taking place in the industry.

Indian direct selling industry so far

Category	2011-12	2010-11	2009-10
Gross sales revenue (INR Million)			
Member	37,672	30,080	23,500
Non-Member	26,179	22,214	17,700
Organised sector	58,743	47,953.6	37,492
Unorganised sector	5,108	4,340	3,708
Gross sales revenue	63,851	52,294	41,200
YOY growth (in %)	22.1	26.9	24
Gross sales revenue (US\$ Million)			
Member	787	661	496
Non-Member	547	488	373
Organised sector	1,226	1,054	791
Unorganised sector	107	95	79
Gross sales revenue	1,333	1,149	901
YOY growth (in %)	16	27.6	24.5
Regional share in gross sale revenue (in %)			
North	20	15	12
East	15	14	13
North-East	10	7	6
West	17	20	21
South	38	44	48
Contribution to exchequers by member companies (INR Million)			
Total taxes paid	8,212	6,470	4,090
Direct taxes	2,218	1,628	1,390
Indirect taxes	5,994	4,842	2,700
Direct selling distributor's (numbers)			
Distributor's Member	39,80,016	32,04,522	25,65,418
Distributor's Non-member	8,73,216	7,58,000	6,21,000
Distributor's Total	48,53,232	39,62,522	31,86,418
Growth of distributor's (in %)	22.5	24.5	-
Male distributors	18,19,962	14,26,508	9,55,925
Female distributors	30,33,270	25,36,014	22,30,492

Source: PHD Research Bureau, compiled from various Indian direct selling surveys.

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Indian Direct Selling Association (IDSA)

The Indian Direct Selling Association (IDSA) is an autonomous, self-regulatory body for the direct selling industry in India. The Association acts as an interface between the industry and policy-making bodies of the government facilitating the cause of direct selling industry in India. IDSA strives to create an environment conducive to the growth of direct selling industry in India, partnering industry and government alike through advisory and consultative activities. In addition to this, it also catalyses change by working closely with government on policy issues, enhancing efficiency and ushering in desired credibility, clarity & confidence in Direct Selling

The IDSA envisions making direct selling the most respected industry in India and works with a mission to enhance lives by sharing and protecting the direct selling opportunity for personal, professional and financial development, to work towards a policy framework for direct selling with the government and stakeholders and to encourage and maintain an environment where members can operate independently, ethically and progressively, where direct selling is regarded with merit by the entire community.



World Federation of Direct Selling Associations (WFDSA)

WFDSA is a non-governmental, voluntary organization globally representing the direct selling industry as a federation of national Direct Selling Associations. It was founded in 1978 and its membership consists of more than 60 national direct selling associations and one regional federation. Its mission is to build understanding and support for direct selling worldwide and to work towards extending support to direct selling companies and associations by developing, maintaining and promoting the highest global standards for responsible and ethical conduct, advocating the industry's positions and interest with governments, media and key influencers, serving as a trusted global resource for information on direct selling and facilitating interaction among direct selling executives on issues of importance to the industry.

The Federation pursues the highest level of ethical conduct in the global marketplace, fosters advocacy by partnering with government, consumer and academic leaders, and strengthens management of national and regional Direct Selling Associations. It works with various industry and external groups to improve awareness and understanding of direct selling. The federation conducts third party research and collects data on the socio-economical impact of direct selling, public attitude and facilitates long-term industry reputation enhancement. WFDSA provides information related to direct selling industry and instructions on efficient and proper management of a direct selling association, so as to serve their members through global, regional and national seminars and other educational offerings in a better way.