



The Indian Direct Selling Industry Annual Survey 2012-13

Aiming high despite hurdles...

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Saurabh Sanyal

Message - Executive Director, PHD Chamber

The Annual survey 2012-13 for the Indian Direct Selling Industry is addition to series of annual surveys undertaken by the PHD Research Bureau, the research arm of PHD Chamber, which assesses the overall growth dynamics of industry. It gives me immense pleasure to share that PHD Chamber and IDSA are holding a continuous collaboration to publish their annual survey reports. It is an exhaustive survey based empirical report on financial performance of the Direct Selling Industry and its evolution over the last few years, based on several parameters.

With expanding Indian consumer market coupled with rising urbanisation, growing middle class population and changing consumer preferences have prompted many Indian and foreign companies to invest in India. These companies are now trying to reach consumers through different channels of distribution, marketing and advertising. Direct Selling is one such alternate distribution channel which establishes direct reach to consumers. Over the years, Direct Selling Industry is a rapidly emerging and boosting self employment opportunities, encouraging women empowerment and it holds immense importance to the overall economic system.

However, despite its 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 financial performance of the sector and its significance to the Indian economy.

I commend and appreciate efforts of the PHD Research Bureau team led by Dr. S. P. Sharma, Chief Economist and assisted by team members Ms. Surbhi Sharma, Ms. Bhawana Sharma and Mr. Syed Zaki Mehdi in producing this study of analytical value. 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 facilitated us in preparing the study. I would like to thank the Chairman and Secretary General of IDSA for their valuable guidance and time. We also appreciate the patience and commitment of all the IDSA members and surveyed participants.



Message - Secretary General, IDSA



Chavi Hemanth

Indian Direct Selling Association has committed itself to research methodologies which aim to give accurate facts and figures about the Direct Selling Industry in India. Over the years the Industry estimates given by the report has become a benchmark for the policy makers and has been referred by various Departments of Central and State Governments to formulate policy discourse on Direct Selling Industry in India. These reports are a mirror reflection of the progress made by the Direct Selling Industry and are referred by the International business analysts who give advice to the potential investors about the business prospect in the field of Direct Selling in India. All our efforts are geared towards giving the boost to the trade of Direct Selling Industry in India which can make it one of the preferred Industries to work.

India initiated reforms 20 years back and since then has emerged as an economic powerhouse in Asia with unlimited potential for growth. Over the years India has notched up impressive GDP growth figures. Recently India has been affected by the slowdown in the Global Economy which has impacted its growth and has led to the decline in its industrial productivity and job creation opportunity. Findings of the report state that despite recent downturn in the Global and domestic economy the Direct Selling Industry has a lot of potential to grow in India. It is heartening to note that the Direct Selling Industry has been able to increase its outreach and acceptance among all the sections of the society and has been steadily absorbing manpower from diverse industries of the economy. According to report the share of women in the Direct Selling Industry has always been more than 50% and recent findings show an interesting trend of men joining the Industry and looking forward to the Industry to supplement extra income.

Direct Selling Industry in India has come a long way in India and I am confident that the Direct Selling Industry in India has been able to create a goodwill for itself in the Indian economy and over the years has been able to withstand any volatile situations faced by our economy. Direct Selling is always fun to work as it gives an opportunity to the consumer to make buying decisions only after getting satisfied with its utility. Research figures of the report give a true indication to the planning and preparation done by our Direct Selling Industry to give quality products to the consumers at affordable price. Since the inception of reforms India has experienced a rise in the living standards and income of its population who keep themselves updated with the latest trends in the market and is willing to experiment with their tastes and preferences. India has Manpower advantage over the other countries in the region, 60% of its population is in the age bracket of 15 – 60 years. Economies all over the world look towards India have a favorable view of its potential and are more than willing to do business in India.

In the end I would like to thank Dr. S.P Sharma and his Team for following high standards of research procedures to bring out this Annual Initiative. This referral document will be beneficial tool to all the stakeholders in taking decision which will boost the growth prospects and will help towards formulating a clear policy framework for the Industry. I would also like to give sincere thanks to all our member companies for their whole hearted support in this initiative by giving the Chamber valuable inputs which will help in facilitating Direct Selling Trade in India . IDSA will leave no stone unturned in making Direct Selling Industry in India one of the preferred businesses in India.



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Abbreviations

Bn	Billion
BPM	Business Process Management
B2B	(Business-to-Business)
B2C	(Business-to-Commerce)
CIS	Commonwealth of Independent States
CSR	Corporate Social Responsibility
DIPP	Department of Industrial Policy and Promotion
DSA	Direct Selling Association
FDI	Foreign Direct Investments
FIIs	Foreign Institutional Investments
FY	Financial Year
GDP	Gross Domestic Product
IDSA	Indian Direct Selling Association
IMF	International Monetary Fund
INR	Indian Rupee
IT	Information Technology
Mn	Million
MSME	Micro, Small and Medium Enterprises
MRP	Maximum retail price
MLM	Multi level marketing
NIC	National Industrial Classification
NIAEs	Newly Industrialized Asian Economies
PCMC	Prize Chits and Monetary Circulation
PPP	Purchasing Power Parity
Rep	Republic
R&D	Research and Development
SAR	Special Administrative Region
UNCPC	United Nations Central Product Classification
USA	United States of America
USD	US Dollar
VAT	Value Added Tax
WFDSA	World Federation of Direct Selling Association
YOY	Year on year



Executive Summary

Over the years, Direct Selling Industry is a rapidly emerging as an alternative sales distribution channel, boosting self employment and holds immense importance to the economic system, contributing to the exchequer, providing financial stability and encouraging women empowerment. However, with the current volatile global as well as domestic milieu, emerging threats from fraudulent activities and lack of regulatory framework pose threats for the sector, which is presently standing at crossroads.

The sales revenue by the Direct Selling Industry reached at INR 71,641 million in 2012-13 from INR 63,851 million in 2011-12 and INR 52,294 million in 2010-11. The total sales revenue by firms during 2012-13 can be split up in to total sales revenue of INR 67,199 million by the companies belonging to organized sector and INR 4,442 million by the unorganized sector. The Direct Selling Industry has been growing robust over the recent years. However, during 2012-13, the industry has faced a decline in its overall growth scenario due to several hurdles such as volatile global economic milieu and policy environment and declining investments. The Direct Selling Industry has registered growth rate of about 12% in 2012-13 as against healthy growth rate¹ of 22% in 2011-12, 27% in 2010-11 and 24% in 2009-10.

The survey revealed that Northern region has contributed around INR 19,343 million to the gross sales revenue in 2012-13 and exhibited growth at around 33%. The Northern region has registered a significant increase in share to gross sales revenue at 27% in 2012-13 from 20% in 2011-12 and has registered growth rate of around 33% in 2012-13 as against 56% in 2011-12. The Eastern region has contributed around INR 12,179 million to the gross sales revenue in 2012-13 and exhibited growth at around 19%. The Eastern region has scripted an increase in share to gross sales revenue at 17% in 2012-13 from 15% in 2011-12 and has registered growth rate of around 19% in 2012-13 as against 32% in 2011-12.

The North Eastern region has contributed around INR 7,881 million in 2012-13 and exhibited growth at around 27%. The North Eastern region has scripted a marginal increase in share to gross sales revenue at 11% in 2012-13 from 10% in 2011-12. The Western region has contributed around INR 10,746 million in 2012-13 and exhibited growth at around 9%. The region has exhibited a decline in the share to gross sales revenue at 15% in 2012-13 from 17% in 2011-12 and registered growth rate of around 9% in 2012-13 as against 19% in 2011-12. The Southern region has contributed around INR 21,492 million in 2012-13 and exhibited growth at around (-) 14%. The region holds a significant share to gross sales revenue of the industry at 30% in 2012-13 as against 38% in 2011-12. However, the growth of the region declined significantly to (-) 14% in 2012-13 as against (-) 2% in 2011-12.

¹ IDSA Annual Surveys since FY2010



The total distributor base² of the Indian Direct Selling Industry during 2012-13 stands at 57,75,345 out of which 47,93,537 distributors are employed³ by member companies, whereas, 9,81,808 distributors are employed by the non-member companies. The growth of total distributor's network stands at 18.9% in 2012-13 over 2011-12, contributed by around 20% growth among members and about 12% growth among non-members. The steady growth is mainly attributed to factors such as entry of new firms, expansion of business to different cities and more youth joining the force. The region wise split of distributors' network stand highest in the Southern region of the country at 16,17,097 followed by Northern region at 15,01,590, Eastern region at 10,39,562, Western region at 9,24,055 and North East at 6,93,041. The share of women has always been more than 50% in Direct Selling Business. However, Indian men are looking up to this sector as a supplementary earning opportunity, as consumption basket of the families has swelled up over the years

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 47%, whereas, beauty/cosmetics and personal care and home ware and home improvements products have captured 35% and 11% shares respectively. This is followed by 4% share of consumer and household durables, 2% share belonging to other categories and a meagre share of 1% to foodstuffs and beverages.

The total tax paid by the IDSA member companies amounts to INR 9,869 million in 2012-13 as compared to INR 8,212 million in 2011-12, 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 20% in 2012-13 over 2011-12.

With increasing health consciousness among consumers and rapid increase in inclination towards a good quality of life, it has been observed that customers preferred to consume wellness/healthcare products capturing a share of 34%. The products sold through Direct Selling are quiet attractive to female consumers which is indicated from the fact that cosmetics and personal care products have been found to be the second most popular product category capturing a share of 30%. It was followed by home care/home improvement products (12%), consumer and household durables (10%) and food/beverages (8%). Although the Direct Selling Industry is currently running in slow gear, growth prospects of the industry are bright which is set to take off, driven by strong consumer base and expanding markets going forward. The survey revealed that respondents were 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 71,641 million in 2012-13.

² Distributors include direct sellers and independent sale consultants.

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



**GLOBAL OUTLOOK OF
THE DIRECT SELLING INDUSTRY**



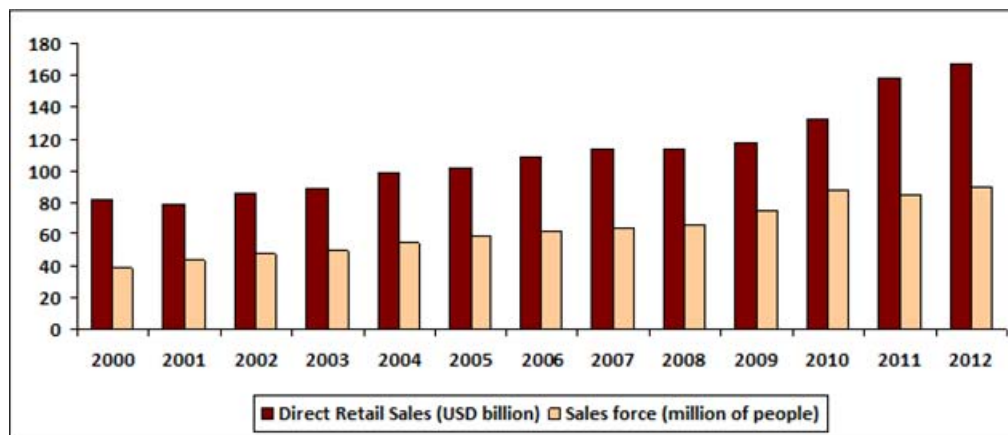
1. Global outlook of the Direct Selling Industry

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, etc. 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.

The Direct Selling Industry has registered remarkable performance over the many years. It has grown globally at around 20% in 2011. The industry has generated revenue of USD 166,876 million in 2012 as against USD 158,319 million in 2011 registering a growth rate of 5.4%. It is disappointing to note that industry slipped to a growth rate of 5.4% in 2012 as against last year, which is well supported with the fact that the global economic slowdown has impacted the business scenario of the Direct Selling Industry.

In terms of employment generation, the sector offered self employment opportunities to 43.8 million sales force in 2001, which now, in 2012, stood at 89.7 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)

Note: Data for 2011 and 2012 is latest available on WFDSA as on June 24, 2013

The global Direct Selling Industry generated total revenue at USD 166,876 million in 2012 as compared to USD 158,319 million in 2011, witnessing a growth of 5.4%. The USA recorded



highest sales at USD 31,630 million in 2012 as compared to USD 29,870 million in 2011, while Slovenia has registered the lowest sales among nations at USD 17 million in 2012 as against USD 22 million in 2011. The industry generated self employment opportunities for 89.7 million Direct Sellers in 2012 as compared to 84 million sales force in 2011, registering a growth rate of 6.7%. During the year 2012, 75% of females were part of the industry and 25% of males. In terms of sales strategy, 80% of sales were conducted by person-to-person interaction and 18% through party plans/groups.

Table 1.1: The Global Direct Selling Industry: Fact sheet

Parameter(s)	Unit	2012	2011
Global market size	USD Million	166,876	158,319
Highest regional share in global sales	in %	Asia/Pacific ⁴	Asia/Pacific
		44	44
Country wise –Top share in global market	in %	USA	USA
		19	19
Country with highest sales	USD Million	USA	USA
		31,630	29,870
Country with Lowest sales	USD Million	Slovenia	Slovenia
		17	22
Number of Direct Sellers		89,675,927	84,592,449
Direct Sellers -Female	in %	75	76
Direct Sellers -Male	in %	25	24
Global retail sales by sales method			
Person to Person	in %	80	77
Party Plan/Classes/Groups	in %	18	20
Other	in %	2	3
Product wise sales (maximum) Share in global sales	in %	Cosmetics & Personal Care	Cosmetics & Personal Care
		35	30
Product wise sales (minimum) Share in global sales	in %	Food Stuff & Beverages	Home Care, Food Stuff & Beverages and utilities
		1%	2%

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

Note: Data available on WFDSA as on June 24, 2013,

⁴ Asia Pacific includes Australia, China, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, New Zealand, Philippines, Singapore, Taiwan, Thailand, Vietnam and other



Nearly 44% of market share of global Direct Selling Industry is held by Asian/Pacific markets in 2012 at USD 73,276 million as compared to USD 70,177 million in 2011, recording a growth rate of 4.4%. Among the regions, North America which captures 20.2% of global market, the revenue generation stands at USD 33,854 million in 2012 as against USD 32,072 million in 2011 with a growth rate of 5.6%. The Africa and Middle East captures a share of less than 1% of global market with a growth rate of around 4.7% and 3.2% respectively in 2012.

Table 1.2: Region wise revenue generation 2012 vs 2011

Region	Market size 2012(USD mn)	Market size 2011 (USD mn)	Y-O-Y Growth rate 2012 (in %)	Market size 2012 (in %)
Asia /Pacific	73,276	70,177	4.4	43.9
North America	33,854	32,072	5.6	20.3
South & Central America	32,594	29,534	10.4	19.5
Europe	25,892	25,330	2.2	15.5
Africa	1,099	1,050	4.7	Less than 1
Middle East	161	156	3.2	Less than 1

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

Note: Data available on WFDSA as on June 24, 2013

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 2012, nearly 35% of the industry revenue was generated by sale of cosmetics and personal care products with USD 58,407 million. The wellness/healthcare sector registered a whopping 25% in industry's revenue generation of USD 41,719 million in 2012. Among other sectors, in year 2012, household goods and durables contributed 14% (USD 23,363 million); it is followed by clothing & accessories 9% (USD 15,019 million)



Table 1.3: Product wise revenue generation 2012 vis-à-vis 2011

Product category	Product wise revenue generation 2012 (USD mn)	Product wise revenue generation 2011 (USD mn)	Y-O-Y Growth 2012 (in %)	Share in global revenue generation in 2012 (in %)	Share in global revenue generation in 2011 (in %)
Cosmetics & Personal care	58,407	47,496	23.0	35	30
Wellness	41,719	39,580	5.4	25	25
Household goods & durables	23,363	25,331	-7.8	14	16
Clothing & Accessories	15,019	14,249	5.4	9	9
Home Improvement	3,338	4,750	-29.7	2	3
Financial Services	3,338	4,750	-29.7	2	3
Books, Toys, Stationery etc	5,006	4,750	5.4	3	3
Utilities	3,338	3,166	5.4	2	2
Foodstuff & Beverages	1,669	3,166	-47.3	1	2
Home care	5,006	3,166	58.1	3	2
Others	6,675	7,916	-15.7	4	5

Source: PHD Research Bureau, compiled from World Federation of Direct Selling Association (WFDSA), Note: Data available as on June 24, 2013

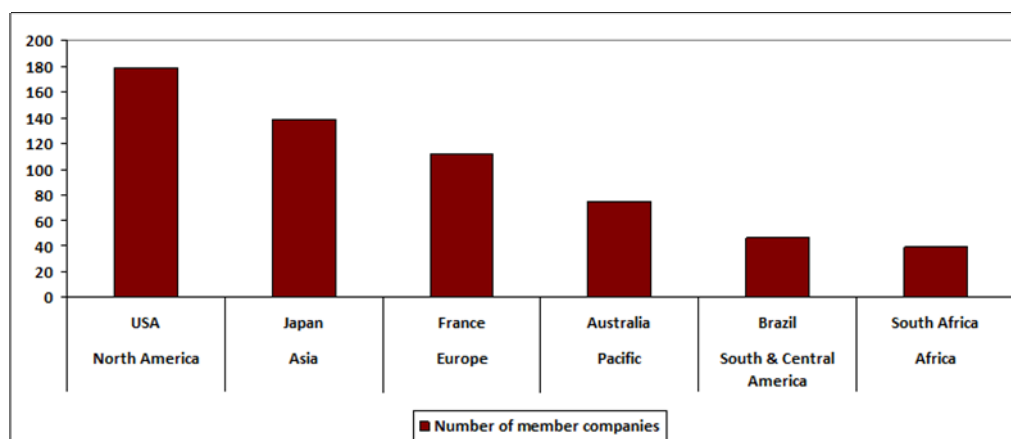
1.1 World Federation of Direct Selling Associations

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 Emerging & developing economies: Capturing 38% of global revenue

Emerging market and developing economies share in the global nominal GDP has increased to around 38% in 2012 from 36% during 2011. The share of developing Asia has slightly increased to around 17% of the global nominal GDP in 2012 from 16% during 2011. However, the share of advanced economies and Euro area has scaled down to 62% and 17% in 2012, respectively as against 64% and 19% in 2011, respectively. While the region like Middle East and North Africa, CIS and Sub-Saharan Africa captures the steady share in the global nominal GDP.

Table 1.4: Region wise GDP

Regions	Nominal GDP 2012 (USD Bn)	% share in global nominal GDP 2012	Nominal GDP 2011 (USD Bn)	% share in global nominal GDP 2011
Advanced economies	44,996	62	45,040	64
Emerging market and developing economies	27,221	38	25,742	36
Developing Asia	12,358	17	11,359	16
Euro area	12,199	17	13,112	19
Middle East and North Africa	3,202	4	2,911	4
Commonwealth of Independent States (CIS)	2,674	4	2,494	4
Sub-Saharan Africa	1,272	2	1,226	2

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



In terms of Purchasing Power Parity (PPP⁵), out of 176 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: Purchasing Power Parity (PPP) across the economies

Country	Global Rank (out of 176 countries based on PPP)	Gross domestic product based on purchasing-power- parity (PPP) valuation of country GDP	Population (in mn)
United States	1	15,684,800	313.9
China	2	12,470,982	1,350.7
India	3	4,793,414	1,236.7
Japan	4	4,487,301	127.6
Russian federation	5	3,373,166	143.5
Germany	6	3,349,405	81.9
France	7	2,371,919	65.7
Brazil	8	2,365,779	198.7
United Kingdom	9	2,333,170	63.2
Mexico	10	2,021,909	120.8
Korea,rep	12	1,540,151	50.0
Indonesia	16	1,223,446	246.9
Thailand	21	655,816	66.8
Malaysia	26	501,249	29.2
Philippines	30	426,503	96.7
Hong Kong SAR	36	371,650	7.2
Singapore	40	328,323	5.3
Vietnam	43	322,717	88.8

Source: PHD Research Bureau, compiled from World Bank for population. Note: Population data is available for 2012

In the Asian region, there are 12 major countries actively involved in trade through Direct Selling method at organised level. Out of these 12 Asian countries, Japan dominates with a major chunk of 32% at USD 22,710 million during 2012 registering a fall in growth rate of 4.8%. China with a share of 28% in Asian market, the revenue generation scaled up to USD 19,962 million in 2012 from USD 17,586 million in 2011 with a growth rate of 13.5%. Economies such as Korea (USD 13,273 million), Malaysia (USD 4,667 million) and Taiwan (USD 2,976 million) are among other

⁵ PPP stands for purchasing power parity, a criterion for an appropriate exchange rate between currencies. It is a rate such that a representative basket of goods in country A costs the same as in country B if the currencies are exchanged at that rate.



leading markets. India has a market size⁶ of USD 1,051 million in 2012 registering 22% growth from USD 858 million in 2011.

Table 1.6: Asian Economies Direct Selling revenue generation (2012 vis-à-vis 2011)

Country	Retail sales 2012 (USD million)	Retail sales 2011 (USD million)	Y-O-Y Growth rate 2012 (In %)	Share in total Asian Market 2012 (in %)
Japan	22,710	23,863	-4.8	32
China	19,962	17,586	13.5	28.2
Korea	13,273	12,726	4.3	18.7
Malaysia	4,667	4,360	7	6.6
Taiwan	2,976	2,958	0.6	4.2
Thailand	2,947	2,754	7	4.2
Indonesia	1,088	980	11	1.5
India	1,051	858	22.6	1.5
Philippines	1,011	770	31.3	1.4
Hong Kong	533	444	20	0.8
Singapore	367	330	11.3	0.5
Vietnam	292	261	12.0	0.4
Total	70,877	67,889	4.4	100

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

Note: Data available as on June 24, 2013

The Asian market deals in trading of 10 broad product categories through Direct Selling. Out of which, wellness products captured the highest market share in Asia with 36% of the total, generating USD 18,056 million revenue in 2012. It is followed by cosmetics and personal care products (USD 12,978 million) and household goods (USD 7,790 million) capturing 26% and 16% respectively. Other products include clothing & accessories, books, toys & stationery, home care capturing 4%, 4% and 3% respectively.

It was found that wellness lead the Direct Selling markets of most economies like Japan, Korea, Malaysia, Taiwan, Thailand, 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 foodstuff & beverages, home improvement, utilities have small markets among the Asian economies.

⁶ Data is based on figures quoted by WFDSA according to the Calendar Year basis. However, the Annual Survey 2012-13 figures may differ as they have been computed on Financial Year basis



Table 1.7: Product diversification of Direct Selling in Asian market 2012

Country	Product category (in USD mn)										Total
	C/A	C/P	HC	HG	W	B/T/S	F/B	HI	U	O	
Japan	1136	6813	681	4315	6586	454	0	908	0	2044	22710
Korea	0	3451	0	1593	4646	1460	0	0	0	1991	13273
Malaysia	327	747	233	1073	2007	93	187	0	0	0	4667
Taiwan	89	446	149	149	1726	30	0	0	30	357	2976
Thailand	88	796	59	501	1149	118	59	0	0	206	2947
India	0	347	147	63	462	0	0	0	0	32	1051
Philippines	101	101	30	30	718	30	0	0	0	0	1011
Hong Kong	0	117	5	21	389	0	5	0	0	0	533
Singapore	4	81	11	44	224	0	4	0	0	0	367
Vietnam	18	79	26	0	149	9	12	0	0	0	292
Total	1,762	12,978	1,342	7,790	18,056	2,194	266	908	30	4630	49827
Share in Asia's market	4	26	3	16	36	4	1	2	0.1	9	100

Source: PHD Research Bureau, compiled from World Federation of Direct Selling Association (WFDSA), Note: Data available as on June 24, 2013, Data for China and Indonesia are not available. Values have been taken excluding these countries. Note: C/A stands for Clothing & Accessories, C/P stands for Cosmetics and Personal care, H/C stands for Home care, HG stands for Household goods & durables, W stands for Wellness, B/T/S stands for books, toys & stationery etc., F&B stands for Foodstuff & Beverages, HI stands for Home Improvement, U stands for Utilities, O stands for Others.



Highlights -- Global Direct Selling Industry

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, etc. 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.

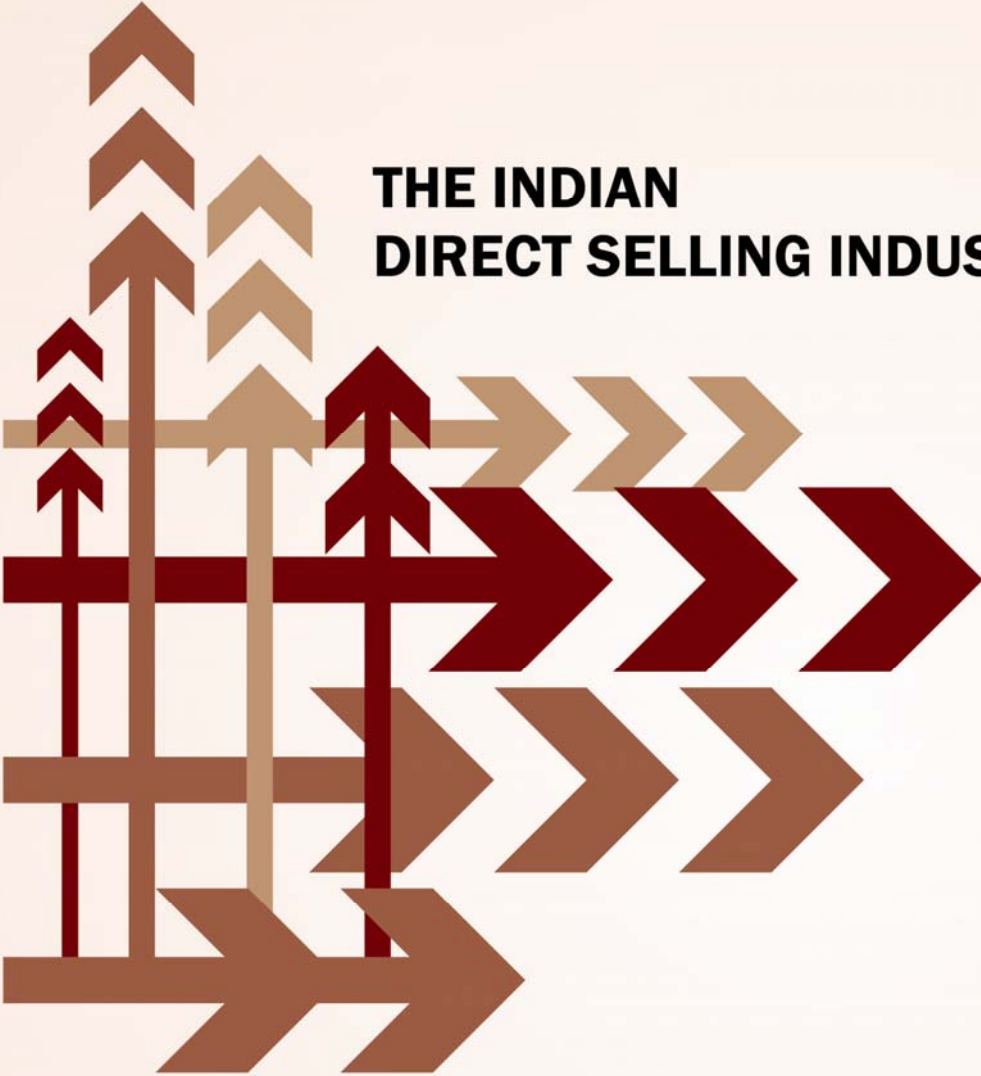
The Direct Selling Industry has registered remarkable performance over the many years and has grown globally at around 20% in 2011. The industry has generated revenue of USD 166,876 million in 2012 as against USD 158,319 million in 2011 registering a growth rate of 5.4%. It is disappointing to note that industry slipped to a growth rate of 5.4% in 2012 as against last year, which is well supported with the fact that the global economic slowdown has impacted the business scenario of the Direct Selling Industry. In terms of employment generation, the sector offered self employment opportunities to 43.8 million sales force in 2001, which now, in 2012, stood at 89.7 million sales force.

Nearly 44% of market share of global Direct Selling Industry is held by Asian/Pacific markets in 2012 at USD 73,276 million as compared to USD 70,177 million in 2011, recording a growth rate of 4.4%. Among the regions, North America which captures 20.2% of global market, the revenue generation stands at USD 33,854 million in 2012 as against USD 32,072 million in 2011 with a growth rate of 5.6%. The Africa and Middle East captures a share of less than 1% of global market with a growth rate of around 4.7% and 3.2% respectively in 2012.

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 2012, nearly 35% of the industry revenue was generated by sale of cosmetics and personal care products with USD 58,407 million. The wellness/healthcare sector registered a whopping 25% in industry's revenue generation of USD 41,719 million in 2012. Among other sectors, in year 2012, household goods and durables contributed 14% (USD 23,363 million); it is followed by clothing & accessories 9% (USD 15,019 million)



**THE INDIAN
DIRECT SELLING INDUSTRY**



2. The Indian Direct Selling Industry

Direct Selling is the process by which products/services are marketed directly to the consumers generally in their homes, homes of others, at their workplace or at places apart from retail locations, through demonstration of products by a Direct Seller. Companies venture into Direct Selling because it is effective and economic in many respects, helping them save channel costs and costs of advertising. On the other hand, Direct Selling has been found to be appealing to consumers for its high quality standards and increased outreach. It helps in catering to consumers who do not have easy access to retail stores.

The Indian Direct Selling Industry is labour intensive industry and has a positive socio-economic impact in terms of higher employment, higher level of income, higher purchasing power and skill development. It has also contributed largely to the growth of India's MSME sector by way of outsourcing their manufacturing process to these enterprises in order to produce products domestically. Since MSME sector has emerged as a driver of industrial expansion, there is a strong complementarity between MSMEs and Direct Selling Industries, and the Direct Selling Sector has potential to trigger the growth of the sector by its edge in marketing and distribution strategies.

In India, the Direct Selling Industry came into existence in early 1990s soon after the country opened up to the global market. 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. With changing value perception of customers increasingly looking for quality products that add value and are willing to pay a premium for them would play a critical role in driving the growth of Direct Selling Sector. Further, tapping emerging markets in rural areas, Tier II and Tier III cities would play critical role in contributing to the growth story of the sector, going forward.

With rising cost of living, it has been noticed that Direct Selling Business is not only popular among women but also among men. The share of women has always been more than 50% in Direct Selling Business as they are more amenable to direct selling than men because a large number of the products sold by Direct Selling have direct appeal to women. However, 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. India is rapidly integrating with the world economy and is supported by a conducive business environment that provides protection to its consumers and investors. Recent reforms in FDI front will 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: 2012-13

Gross Sales Revenue (INR million)	71,641
Share in GDP (%)	0.07
Growth of Gross Sales Revenue (%)	12.2
Work force	57, 75,345
Per capita revenue generation (INR)	12,404
Number of companies ⁷ 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 Emerging scenario of retailing in India

Retail sector is one of the fastest growing industries in India and across the world and has played a major role in increasing productivity across a wide range of consumer goods and services. With growing consumerism and burgeoning incomes, the Indian retail sector has undergone a rapid transformation in the past few years. However, the retail industry continues to face a demanding market environment that requires firms to adjust and actively manage change that may impact sales and performance. At the same time, advances in technology and in capturing and analyzing data are helping companies drive growth, streamline operations and engage better with consumers. To expand internationally, retailers have gained entry via joint ventures or franchises and securing swift access with a lot of local knowledge. Online retailing, mobile retailing and multi channel retailing are powerful trends in the global market. These formats are growing at the expense of traditional retail outlets.

India boasts of a strong retail industry accounting for around 14-15% of India's GDP with an estimated size of about USD 500 billion presently⁸. The share of modern retail⁹ is estimated to grow from around 8% of total retail in 2012 to more than 10% in 2015. According to the Global Retail Development Index¹⁰ 2013, India ranks fourteenth among the top 30 markets for retail and has remain the magnificent monsters for global retailer due to its huge and attractive markets.

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.

⁷ Indian Direct selling industry, Annual Survey Findings 2009-10, Ernst & Young

⁸ India in Business, Ministry of External Affairs, Government of India

⁹ Modern retailing formats include department stores, discount stores, malls, supermarkets, convenience stores, specialty stores, warehouse retailers, hypermarkets, internet selling, etc.

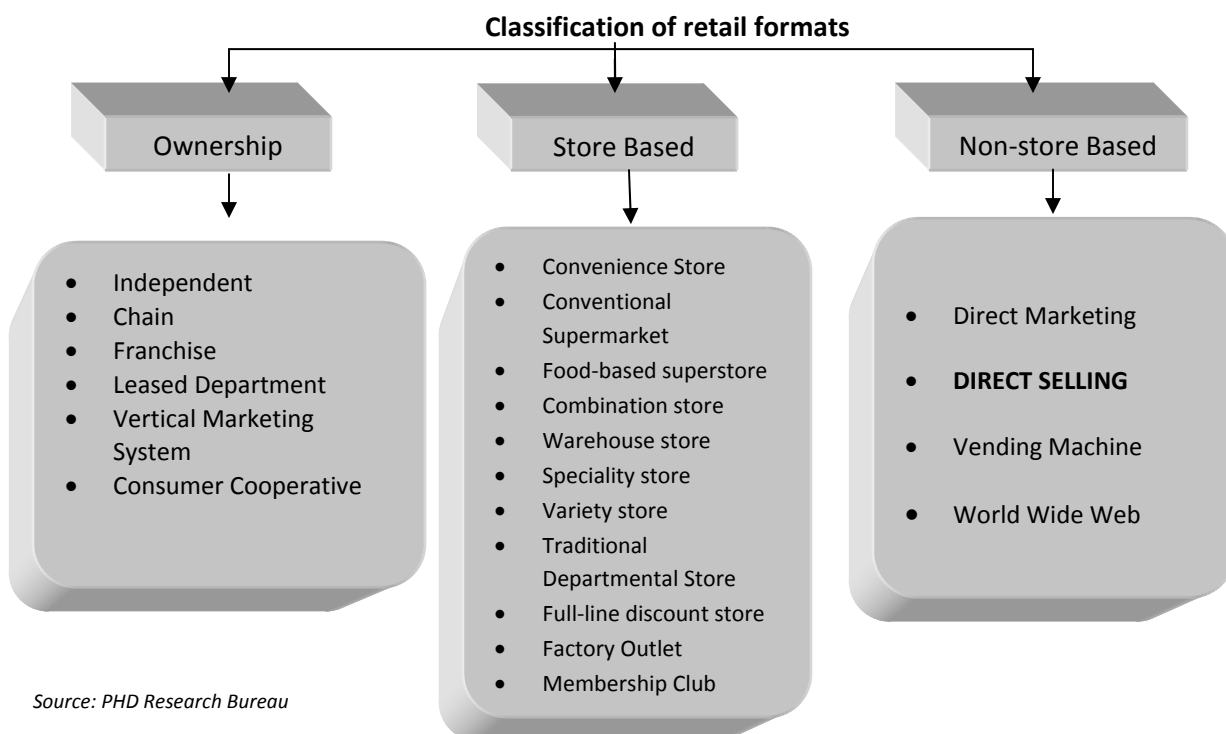
¹⁰ A T Kearney, a global consulting firm



- 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 has its brand and customer loyalty. At the same time it is offering differing success rates to the owners. Presently, Indian retail comprises the unorganised small and medium retailers which are slowly changing into a more organised form of retailing. The traditional formats of retail such as Kirana stores, hawkers, grocers, etc have been gradually taken over by the modern formats of department stores, discount stores, malls, supermarkets, convenience stores, specialty stores, warehouse retailers, hypermarkets, internet selling, etc. 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.*



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 carry¹¹.
- However, the industry classification refers to it as non-store retail format.

3. Objectives of the study

The annual survey for the Direct Selling Industry 2012-13 focuses on 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 analyse the global developments of the Direct Selling Industry
- To study the emerging trend in sales revenue in the Direct Selling Industry of India
- To understand the extent of geographical penetration and product diversification of the Direct Selling Industry of India.
- To know the production and market strategies from the producers' perspective
- To analyse the perspective of consumers on Direct Selling and its products
- To analyse the critical success factors and sensitivities of the Direct Selling Industry
- 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 2012-13 were initiated in July 2013 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.

¹¹ Department of Industrial Policy and Promotion (DIPP) classifies direct selling under wholesale trade for the purpose of FDI inflows and according to the National Industrial Classification (NIC), 2008, direct selling is classified under retail trade (non-store format retail), Socio-Economic Impact of Direct Selling: Need for a Policy Stimulus, ICRIER, 2011

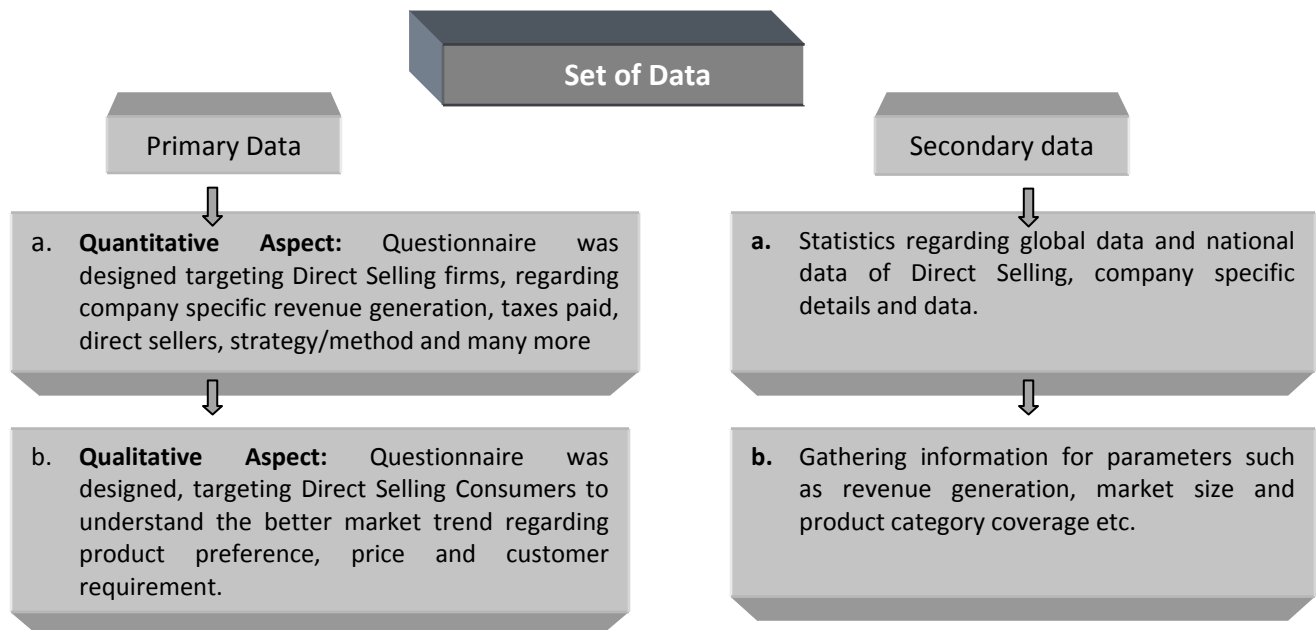


4.1 Data Collection

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 revenue¹² have been arrived at through inputs received from respondents and trend analysis of times series data.
- The figures on distributor base have been estimated from 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 the 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

¹² 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.



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 PHD chamber. However, in case of consumers' survey, random sampling technique was used where respondents were chosen randomly across various cities.

Table 4.1: Process of data collection

Questionnaire	Technique	Description	No. of respondents
Producers	Systematic Sampling ¹³	Direct Selling Companies across product categories and services in India was identified and an exhaustive list was prepared.	84
Consumers	Random sampling: Equal Probability of Selection Method of Sampling ¹⁴	Responses were received from cities including Delhi, Mumbai, Pune, Chennai, Kolkata, Bengaluru, Hyderabad, Gurgaon, Dehradun, Mussorie, Shimla, Muzaffarpur, Chandigarh, Lucknow, Patna, Bokaro, Ambala, Amritsar, Udaipur, Vadodara, Cochin, Ludhiana, Bhubaneshwar, Allahabad, Faridabad, Bhopal, Indore, Raipur, Bilaspur, Ranchi, Itanagar, Guwahati, Surat, Jaipur, Sriganga Nagar, Agartala, Aizawl, Dimapur, Panchkula, Gwalior, Kolkata, Bhubneswar, Shillong, Imphal, Gangtok, Gandhinagar, Panaji, Kashmir, Thiruvananthapuram, Silvassa, Daman, Port Blair, Kavaratti and Puducherry. Customers belong from different strata of the society including age-groups, income levels, preferences and tastes to understand their attitude towards direct selling products.	2344

Source: PHD Research Bureau

¹³ It is used in those cases where a complete list of population from which the sample is to be drawn is available.

¹⁴ In this technique every individual, or object, in the population of interest has an equal opportunity of being selected for the sample.



PRODUCER SURVEY ANALYSIS



5. Producer survey analysis

Over the years, Direct Selling Industry is a rapidly emerging as an alternative sales distribution channel, boosting self employment and holds immense importance to the economic system, contributing to the exchequer, providing financial stability and encouraging women empowerment. However, with the current volatile global as well as domestic milieu, emerging threats from fraudulent activities and lack of regulatory framework pose threats for the sector, which is presently standing at crossroads.

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, promotional policy, contribution to exchequer, distributor's network and qualitative inputs in regards to policy framework. PHD Research Bureau has received a total 84 responses from Direct Selling producers/companies including both IDSA and non IDSA members. Out of the total, nearly 82% 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 gather information regarding firms operating in unorganised sector where challenge lies with the fraud companies operating in this segment. Thus, the responses received from legitimate companies including 18 IDSA and 66 non IDSA member companies have been put together and inferences on the aggregation are represented in terms of averages and percentages.

5.2 Characteristics of the sample

According to the survey, Direct Selling Companies which manufactures 6 broad product categories has been taken into consideration. The highest share of the respondent companies belonged to wellness/ healthcare at 82%, followed by beauty/ cosmetics and personal care¹⁵ at 65%, homecare/ home-ware and home improvement¹⁶ at 59%, others at 45%, food and beverages at 29% and consumer and household durables¹⁷ at 22%.

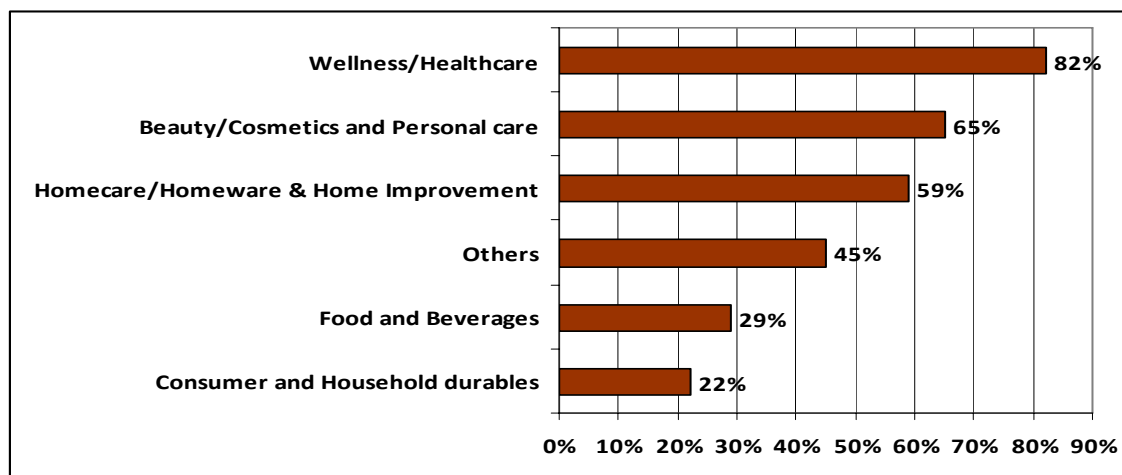
¹⁵ Make-up products, skin care products, hair-care products, Clothing, lingerie, sleepwear, shoes, fashion jewellery, fashion watches, accessories & personal items

¹⁶ 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

¹⁷ 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 5.1 Product wise category coverage among respondents



Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13, Note: Others include Agricultural products, educational products, utilities, promotional items etc., Note: Figures includes multi-category production companies

5.3 Sales revenue growth of Direct Selling Industry

The sales revenue¹⁸ of the Indian Direct Selling Industry has registered remarkable growth over the recent years. However, during 2012-13, it has been observed that Direct Selling has marked a decline in its overall growth scenario. The major reason according to the survey is attributed to the volatile global as well as domestic scenario; as these developments have considerable direct and indirect influence on our economy and financial system through various channels.

Although the country boasts of extremely resilient consumer markets and a strong demographic dividend emerging from its growing young age population, presently the country is faced with several challenges to its growth. Notable among them are high inflation, stagnating manufacturing output, high fiscal deficit, widening current account deficit, volatility in the exchange rate scenario, a sluggish investment environment, poor availability of skilled manpower, slow employment generation and inadequate poverty alleviation which has impacted directly or indirectly the Direct Selling Sector.

Other reasons may be attributed to the volatility in the policy environment, as the industry has been victimized by frequent fraudulent activities that have impacted goodwill of the Direct Selling Businesses. The industry has lost a significant share of sales revenue in the Southern

¹⁸ The figures used for sales revenue in the Annual Survey 2012-13 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.



region of the country which has clocked a negative growth rate of about (-) 14% in 2012-13 which set the mood of the industry in dejection and despair. Almost all the respondents unanimously felt that the recent cases in the Southern region particularly harassment by police has not only impacted the Direct Selling Business but also the setback was observed in other regions of the country. Such activities results in shaking buyer's confidence, de-motivation of the Direct Sellers and damages the reputation and image of genuine market player as a whole.

The sales revenue by the Direct Selling Industry reached at INR 71,641 million in 2012-13 from INR 63,851 million in 2011-12 and INR 52,294 million in 2010-11. The total sales revenue by firms during 2012-13 can be split up in to total sales revenue of INR 67,199 million by the companies belonging to organized sector and INR 4,442 million by the unorganized sector.

Table 5.1 Sales revenue statistics of direct selling industry during recent years (INR Mn)

Category	YOY growth 2012-13 (in %)	2012-13	YOY growth 2011-12 (in %)	2011-12	YOY growth 2010-11 (in %)	2010-11	2009-10
Member	16.9	44,059	25.2	37,672	28.0	30,080	23,500
Non-Member	5.4	27,582	17.8	26,179	25.5	22,214	17,700
Total	12.2	71,641	22.1	63,851	26.9	52,294	41,200
Organised sector	14.4	67,199	22.5	58,743	27.9	47,953.6	37,492
Unorganised sector	(-) 13.0	4,442	17.7	5,108	17.1	4,340.4	3,708

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

Note: The sales revenue numbers have been arrived through inputs received from the respondents from the organised and unorganised sector. However, 25% of respondents in organised and 40% respondents in unorganised sector did not provide information on sales revenue. So the data have been driven on the basis of available information.

Table 5.2 Sales revenue statistics of direct selling industry during recent years (USD Mn)

Category	YOY growth 2012-13 (in %)	2012-13	YOY growth 2011-12 (in %)	2011-12	YOY growth 2010-11 (in %)	2010-11	2009-10
Member	2.9	809.9	19.0	786.5	33.3	661.1	495.8
Non-Member	(-) 7.2	507	11.9	546.5	30.7	488.2	373.4
Total	(-) 1.2	1316.9	16.0	1,333.0	27.6	1,149.3	869
Organised sector	0.7	1,235.2	16.4	1,226.4	33.2	1053.9	791
Unorganised sector	(-) 23.4	81.7	11.8	106.6	22.0	95.4	78.2

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

Note: Average Exchange rate for 2009-10 is 47.4 INR/US\$, for 2010-11 is 45.5 INR/US\$, for 2011-12 is 47.9 INR/US\$, for 2012-13 is 54.4 INR/US\$
Note: The sales revenue numbers have been arrived through inputs received from the respondents from the organised and unorganised sector. However, 25% of respondents in organised and 40% respondents in unorganised sector did not provide information on sales revenue. So the data have been driven on the basis of available information.



Table 5.3 Sales revenue statistics of direct selling industry during recent years (Deutsche Mark/Euro Mn)

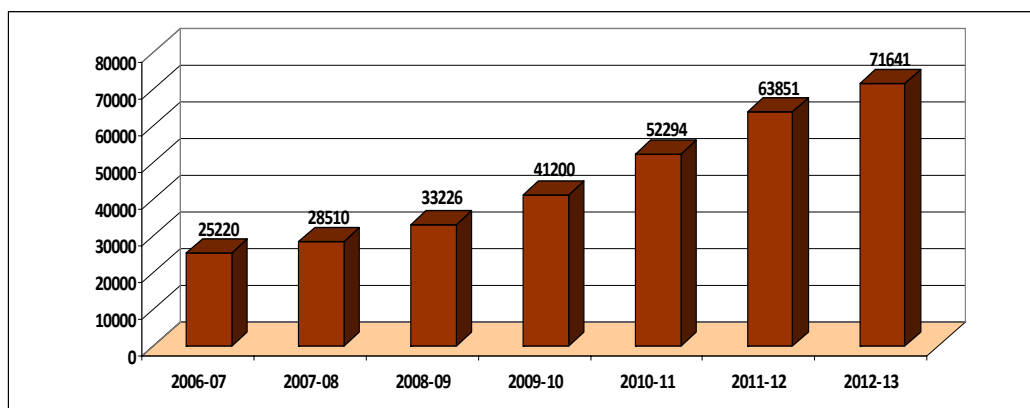
Category	YOY growth 2012-13 (in %)	2012-13	YOY growth 2011-12 (in %)	2011-12	YOY growth 2010-11 (in %)	2010-11	2009-10
Member	9.8	628.5	14.6	572.5	42.7	499.7	350.2
Non-Member	(-) 1.1	393.5	7.8	397.9	39.9	369.0	263.8
Total	5.3	1022	11.7	970.4	41.5	868.7	614.0
Organised sector	7.4	958.6	12.1	892.8	42.6	796.6	558.7
Unorganised sector	(-) 18.3	63.4	7.6	77.6	30.4	72.1	55.3

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

Note: Average Exchange rate for 2009-10 is 67.1 INR/Euro, for 2010-11 is 60.2 INR/Euro, for 2011-12 is 65.8 INR/Euro, for 2012-13 is 70.1 INR/Euro; Note: The sales revenue numbers have been arrived through inputs received from the respondents from the organised and unorganised sector. However, 25% of respondents in organised and 40% respondents in unorganised sector did not provide information on sales revenue. So the data have been driven on the basis of available information.

However, majority of the respondents opined that they look forward to a stable policy regime for the Direct Selling industry to retain confidence of not only stakeholders of Direct Selling Business but also various other segments such as Direct Sellers/distributors whose sentiments are impacted by uncertainty in the Direct Selling Business environment.

Graph 5.2 Trend in annual sales revenue of direct selling industry (INR million)



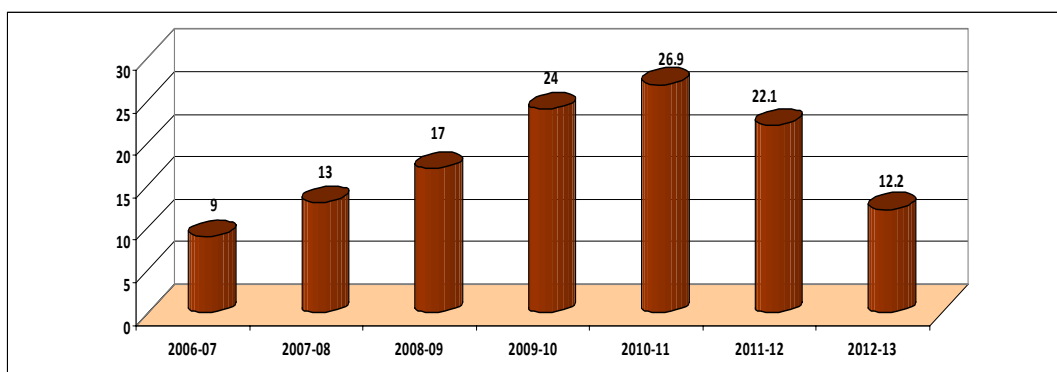
Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

The Direct Selling Industry has been growing robust over the recent years. However, during 2012-13, the industry has faced a decline in its overall growth scenario due to several hurdles such as volatile global economic milieu and policy environment and declining investments. The Direct



Selling Industry has registered growth rate of about 12% in 2012-13 as against healthy growth rate¹⁹ of 22% in 2011-12, 27% in 2010-11 and 24% in 2009-10. However, the respondents felt that the large share of young population and popularization of the concept of social networking and rapid increase of internet usage would be the major driving force for the sector, going ahead.

Graph 5.3 Growth rate of sales revenue in the Direct Selling Industry (%)



Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

Direct Selling footprint across the some sectors of the Indian economy

It is very encouraging to note that Direct Selling Sector even though grappled with several hurdles and bottlenecks is managed to gear up its growth levels over the recent years. The Indian Direct Selling Sector has posted double digit growth rate of 12.2% in 2012-13 which is higher as compared to other sectors such as food processing, steel, services sector, textiles and IT-BPM services.

Table 5.4 Growth scenario across some sectors of the Indian economy

Sector	Growth rate
Food processing	2.6
Automobile	13.5
Drugs & Pharmaceuticals@	19
Direct selling	12
Steel	2.5
Services	7.1
Textiles	6
IT-BPM sector	8.4

Source: PHD Research Bureau compiled from various sources

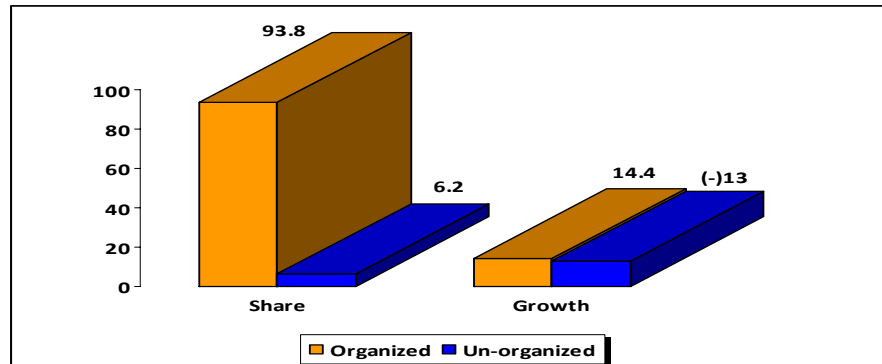
Note: BPM stands for Business Process Management, @data represents for 2012-13, @data represents 2013 over 2012

¹⁹ IDSA Annual Surveys since FY2010



The Direct selling Industry comprises companies which are operating under organized market structure and unorganized market²⁰. It was found that during 2012-13, companies under organized sector contributed to 93.8% to the total sales revenue of Direct Selling Industry, marking a growth of about 14%. On the other hand, companies in unorganized market, contributed to 6.2% of total sales revenue of Direct Selling Industry, growing at about (-) 13%.

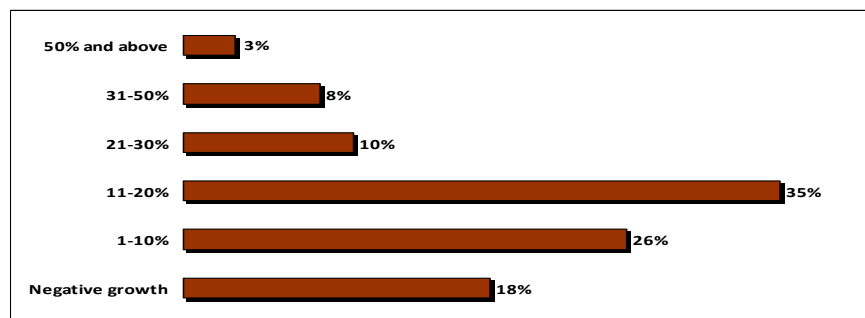
Graph 5.4 Share and growth of organized and unorganized players (%)



Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

During 2012-13, around 56% of the Direct Selling Companies have grown at double digit rates contributed by a 35% of them growing at 11-20%, 10% of them growing at 21-30%, 8% of them growing at 31-50% and 3% growing at 50% and above. However, 18% of the companies have decelerated while 26% companies have grown within 1-10%. The reasons for scripting different levels of growth could be attributed to different sales method adopted by companies, target consumer group, products, competitiveness, etc.

Graph 5.5 Percentage of respondent companies across varying levels of growth(%)



Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

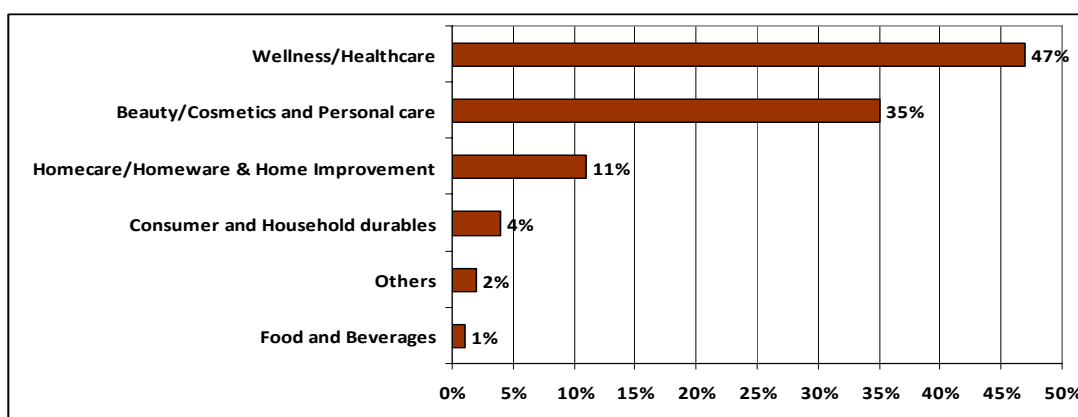
²⁰ We have considered the organised sector to consist of companies/ enterprises which have registered themselves, have a set pattern of financials and file their returns regularly. Un-organised companies are those who have not registered themselves and have not any set pattern of financials.



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 47%, whereas, beauty/cosmetics and personal care and home ware and home improvements products have captured 35% and 11% shares respectively. This is followed by 4% share of consumer and household durables, 2% share belonging to other categories and a meagre share of 1% to foodstuffs and beverages.

Graph 5.6 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 2012-13

Note: Out of the respondents in the organised sector, 25% 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, promotional items etc.

5.5 Geographical segmentation in revenue generation among direct selling companies

Northern region— The Northern region of India includes Jammu & Kashmir, Himachal Pradesh, Delhi, Haryana, Uttar Pradesh, Uttarakhand, Punjab, Madhya Pradesh, Chhatisgarh and the Union territory of Chandigarh. The survey revealed that the concentration of sales revenue of Direct Selling is spreading at a faster gear in this region. According to the survey, the key cities of Direct Selling Business includes Delhi, Kashmir, Allahabad, Panchkula, Chandigarh, Kanpur, Lucknow, Roorkee, Varanasi, Gurgaon, Mohali, Faridabad, Ludhiana, Dehradun, Mussorie, Shimla, Bhopal, Indore, Shahdol, Gwalior, Raipur, kondagon, Jagdalpur, Raigarh and Bilaspur. The survey revealed that the region has contributed around INR 19,343 million to the gross sales revenue in 2012-13 and exhibited growth at around 33%. The Northern region has registered a significant increase in share to gross sales revenue at 27% in 2012-13 from 20% in 2011-12 and has registered growth rate of around 33% in 2012-13 as against 56% in 2011-12. The region looks ahead for more centralized and strict guidelines and regulations to kick off the sector with greater heights and also demands for uncomplicated registration process, so to bring large number of Direct Sellers under net of organized sector.



Eastern region--The Eastern region of India includes Bihar, Jharkhand, West Bengal and Odisha. The concentration of sales is expanding its foot across all the major cities of the region. During the survey, it has been observed that cities such as Patna, Muzaffarpur, Ranchi, Jamshedpur, Bokaro, Kolkata, Silliguri, Jalpaiguri, Burdwan, Midnapur, Bhubaneswar and Raurkela have come across as the key destinations for Direct Selling Business in this region. The survey revealed that the region has contributed around INR 12,179 million to the gross sales revenue in 2012-13 and exhibited growth at around 19%. The Eastern region has scripted an increase in share to gross sales revenue at 17% in 2012-13 from 15% in 2011-12 and has registered growth rate of around 19% in 2012-13 as against 32% in 2011-12. According to the survey, producers' are very optimistic about their growth prospects in the eastern region, as they unanimously responded that the region has not been exploited to its potential as yet. In addition, respondents were of the view that various steps are required to build up the better infrastructure in this region.

North Eastern region— The North Eastern region of India includes Arunachal Pradesh, Assam, Meghalaya, Nagaland, Manipur, Mizoram, Tripura and Sikkim. According to the survey, the key cities for Direct Selling Business include Itanagar, Ziro, Guwahati, Shillong, Dimapur, Imphal, Aizawl, Agartala and Gangtok. The survey revealed that the region has contributed around INR 7,881 million in 2012-13 and exhibited growth at around 27%. The North Eastern region has scripted a marginal increase in share to gross sales revenue at 11% in 2012-13 from 10% in 2011-12. While the region has exhibited a significant decline in the growth scenario at 27% in 2012-13 from 37% in 2011-12.

Western region— The western region of the country includes states of Maharashtra, Goa, Gujarat, Rajasthan and the Union territories of Dadra and Nagar Haveli and Daman and Diu. According to the survey, the key cities of Direct Selling Business include Mumbai, Kalyan, Pune, Nasik, Nagpur Panaji, Gandhinagar, Ahmedabad, Surat, Udaipur, Jaipur, Srirangapatna, Silvassa and Daman. The survey revealed that the region has contributed around INR 10,746 million in 2012-13 and exhibited growth at around 9%. The region has exhibited a decline in the share to gross sales revenue at 15% in 2012-13 from 17% in 2011-12 and registered growth rate of around 9% in 2012-13 as against 19% in 2011-12. According to the survey, the western region could contribute significantly to the sales revenue of the industry with help of conducive policy framework and untapped consumer market.

Southern region--The Southern region has been the largest and most well established market for the Direct Selling Industry in the past few years. The region includes states of Karnataka, Andhra Pradesh, Tamil Nadu, Kerala and Union territories of Puducherry, Lakshadweep, Andaman and Nicobar Islands. The key destinations for Direct Selling Business in this region according to the survey include Bengaluru, Mysore, Vijayawada, Chennai, Hyderabad, Trichy, Madurai, Nagercoil, Cochin, Calicut, Kannur, Thiruvananthapuram, Port Blair, Kavaratti and Puducherry. The survey



revealed that the region has contributed around INR 21,492 million in 2012-13 and exhibited growth at around (-) 14%. The region holds a significant share to gross sales revenue of the industry at 30% in 2012-13 as against 38% in 2011-12. However, the growth of the region declined significantly to (-) 14% in 2012-13 as against (-) 2% 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 region.

Table 5.5 Geographical segmentation and sales revenue (in %) of Direct Selling Companies

Region	States/UTs	Key Cities	% share in sales revenue (2012-13)	% share in sales revenue (2011-12)
North	Jammu & Kashmir, Himachal Pradesh, Delhi, Haryana, Uttar Pradesh, Uttarakhand, Punjab, Madhya Pradesh, Chhatisgarh, Chandigarh	Delhi, Kashmir, Allahabad, Panchkula, Chandigarh, Kanpur, Lucknow, Roorkee, Varanasi, Gurgaon, Mohali, Faridabad, Ludhiana, Dehradun, Mussorie, Shimla, Bhopal, Indore, Shahdol, Gwalior, Raipur, kondagon, Jagdalpur, Raigarh, Bilaspur	27 (33%)	20 (56%)
East	Bihar, Jharkhand, West Bengal, Odisha	Patna, Muzaffarpur, Ranchi, Jamshedpur, Bokaro, Kolkata, Siliguri, Jalpaiguri, Burdwan, Midnapur, Bhubaneswar, Raurkela	17 (19%)	15 (32%)
North East	Arunachal Pradesh, Assam, Meghalaya, Nagaland, Manipur, Mizoram, Tripura, Sikkim	Itanagar, Ziro, Guwahati, Shillong, Dimapur, Imphal, Aizawl, Agartala, Gangtok	11 (27%)	10 (37%)
West	Maharashtra, Goa, Gujarat, Rajasthan, Dadra and Nagar Haveli, Daman and Diu	Mumbai, Kalyan, Pune, Nasik, Nagpur Panaji, Gandhinagar, Ahmedabad, Surat Udaipur, Jaipur, Sriganga Nagar, Silvassa, Daman,	15 (9%)	17 (19%)
South	Karnataka, Andhra Pradesh, Tamil Nadu, Kerala, Puducherry, Lakshadweep, Andaman and Nicobar Islands	Bengaluru, Mysore, Vijayawada, Chennai, Hyderabad, Trichy, Madurai, Nagercoil, Cochin, Calicut, Kannur, Thiruvananthapuram, Port Blair, Kavaratti, Puducherry	30 (-14%)	38 (-2%)

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13, Note: Figures in the parenthesis indicate regional growth rates (Y-O-Y), Northern regional include states of Central parts of India i.e Madhya Pradesh and Chhatisgarh. Panchukula is representing views of the state of Haryana, Chandigarh are representing the collective views of the states of Punjab and Haryana



As per the survey, Bengaluru was ranked the most attractive market followed by Chennai, Delhi, Mumbai, Kolkata, Hyderabad, Pune, Allahabad, Ludhiana and Patna in 2012-13. Whereas Chennai has been ranked the most attractive market for Direct Selling during 2011-12.

Table 5.6 Ranking of cities: Top ten

Rank	City 2012-13	City 2011-12
1.	Bengaluru	Chennai
2.	Chennai	Bengaluru
3.	Delhi	Kolkata
4.	Mumbai	Mumbai
5.	Kolkata	Delhi
6.	Hyderabad	Hyderabad
7.	Pune	Pune
8.	Allahabad	Allahabad
9.	Ludhiana	Ludhiana
10.	Patna	Patna

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13 and 2011-12

5.6 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. According to the survey, on an average, Direct Selling companies have introduced around 7 new products/variants during 2012-13 as compared to more than 10 new products/variants during 2011-12.

Table 5.7 Product expansion

Product expansion	2012-13	2011-12
New products/expansion	7	> 10

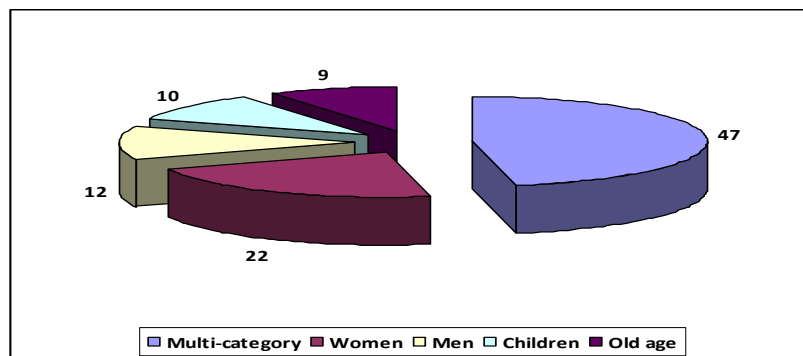
Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13 and 2011-12

5.7 Population segmentation in manufacturing

During the survey it was found that among 84 Direct Selling firms, nearly 47% of respondent companies manufacture or design products that fulfil requirement of various sections of society like men, women, children, as well as old age members. Survey findings revealed that around 22% 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, 10% of products cater to children and 9% cater to old age people.



Graph 5.7 Target consumer category of Direct Selling Industry (%)



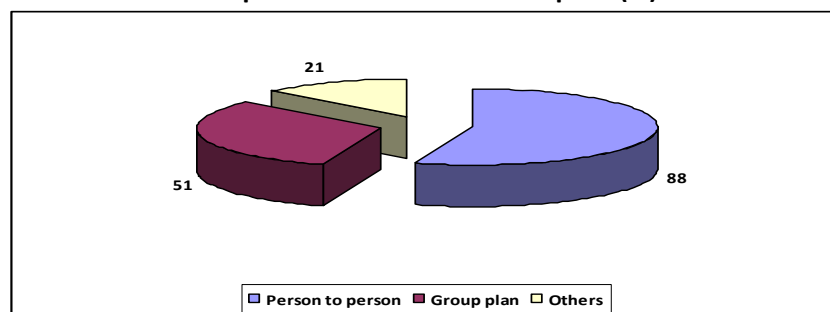
Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

5.8 Sales method and promotional policy of direct selling companies

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. Direct Selling is the sale of a product or service from person to person, away from a fixed retail location. People in the industry are known as independent consultants, distributors, agents or representatives who enable the products/ services accessible to the consumer.

A large share of respondents opined that most of them adopt multiple modes of selling during this year; however person to person method continues to be the predominant way of Direct Selling distribution channel. The survey revealed that nearly 88% 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 51% of the respondent opted for group plan sales method while around 21% adopted other sales methods like social networking and internet.

Graph 5.8 Sales method adopted (%)



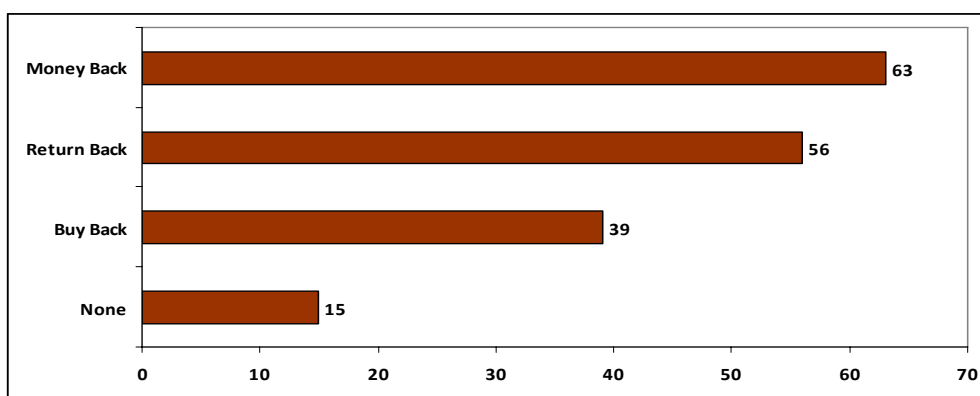
Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

Note: Respondents have opted for more than one method of selling



Backed by extensive Research & Development (R&D) 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 3% of their gross sales revenue for research & development during 2012-13. As per the survey, 63% 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 56% of the respondent firms give this incentive to its customers while 39% respondents adopted buy-back promotional method. However, 15% of the survey firms do not provide any promotional measures to their customers.

Graph 5.9: Promotional policy adopted by Direct Selling Companies (%)



Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

5.9 Contribution to exchequer

The organised Direct Selling firms are liable to pay²¹ 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 and further to 22.4% in 2012-13.

²¹ The taxes paid have been estimated for the direct selling companies i.e. IDSA members in organized sector only. However, out of the respondents in the organised sector, 25% 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



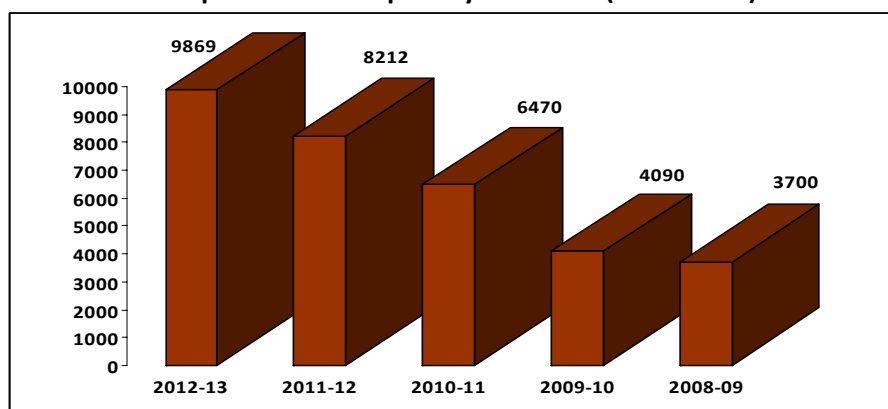
Table 5.8 Taxes paid by IDSA member companies

Year	Taxes paid by IDSA members
	(% share in total sales revenue generation by IDSA member companies)
2012-13	22.4
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 2012-13

The total tax paid by the IDSA member companies amounts to INR 9,869 million in 2012-13 as compared to INR 8,212 million in 2011-12, 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 20% in 2012-13 over 2011-12.

Graph 5.10 Taxes paid by members (INR million)

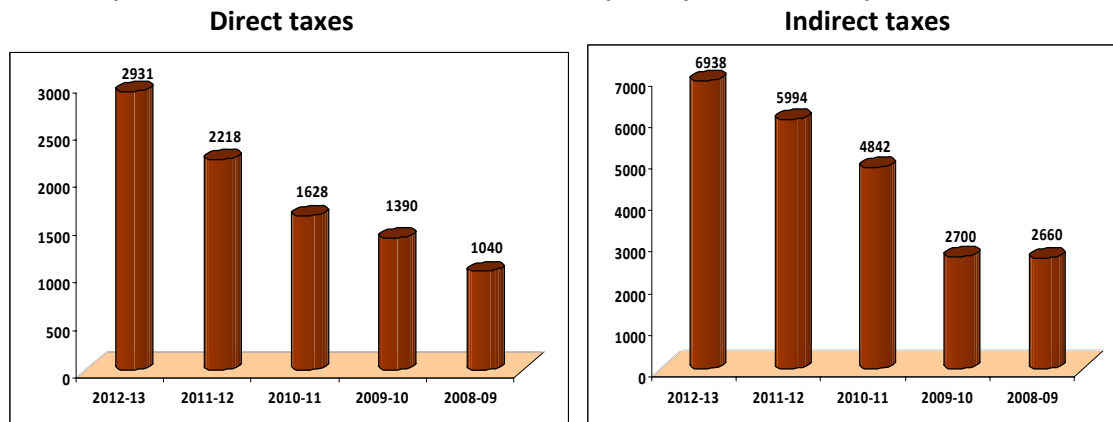


Source: PHD Research Bureau, Annual Survey of the India's Direct Selling industry 2012-13

The direct taxes have increased from INR 1,040 million in 2008-09 to INR 1,390 million in 2009-10 to INR 1,628 million in 2010-11 to INR 2,218 million in 2011-12 and further to INR 2,931 million in 2012-13, while indirect taxes have scaled up from INR 2,660 million in 2008-09 to INR 2,700 million in 2009-10 to INR 4,842 million in 2010-11 to INR 5,994 million in 2011-12 and further to INR 6,938 million in 2012-13.



Graph 5.11 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 2012-13

5.10 Self - employment generation

Entering Direct Seller Business requires little or no capital as it is a channel where sales happen through demonstrations and venue of demonstration is decided by the consumer, hence no outlets are required. The only pre-requisite to start a Direct Selling Business is to have the zeal to work hard. The total distributor base²² of the Indian Direct Selling Industry during 2012-13 stands at 57,75,345 out of which 47,93,537 distributors are employed²³ by member companies, whereas, 9,81,808 distributors are employed by the non-member companies. The growth of total distributor's network stands at 18.9% in 2012-13 over 2011-12, contributed by around 20% growth among members and about 12% growth among non-members. The steady growth is mainly attributed to factors such as entry of new firms, expansion of business to different cities and more youth joining the force.

Our country is well poised to enjoy a growing and young workforce, enabling its economy to benefit from demographic dividend. However, this huge consumer base for India has the potential to pose a challenge on country's infrastructure and also create enough jobs for its growing working-age population. In the coming times, it is necessary to create gainful employment opportunities for a large section of its population, with varying degrees of skills and qualifications. In such scenario, the enhancement in distributors' network in the Direct Selling Sector may be attributed to the inclination of people towards additional earning opportunities in the wake of enhanced consumption expenditure.

²² Distributors include direct sellers and independent sale consultants.

²³ Employment in direct selling industry is defined as self employment and micro-entrepreneurship opportunities



Table 5.9 Growth of distributor's network in 2012-13

Category	Y-o-Y Growth 2012-13 (in %)	2012-13	Y-o-Y Growth (in %)	2011-12	2010-11
Member	20.4	47,93,537	24.2	39,80,016	32,04,522
Non-member	12.4	9,81,808	15.2	8,73,216	7,58,000
Total	18.9	57, 75,345	22.5	48,53,232	39,62,522

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

Note: Around 25% of respondents in organised and 40% respondents in unorganised sector did not provide information on distributors' network. So the data have been driven on the basis of available information.

The region wise split of distributors' network stand highest in the Southern region of the country at 16,17,097 followed by Northern region at 15,01,590, Eastern region at 10,39,562, Western region at 9,24,055 and North East at 6,93,041.

Table 5.10 Region wise distributor's network in 2012-13

Category	Distributor's network in 2012-13
North	15,01,590
East	10,39,562
North East	6,93,041
West	9,24,055
South	16,17,097
Total distributors network	57, 75,345

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13, Note: Around 25% of respondents in organised and 40% respondents in unorganised sector did not provide information on distributors' network. So the data have been driven on the basis of available information. Northern region also includes central states of India i.e MP and Chhatisgarh

The industry witnesses 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 at times is 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 2012-13, attrition rate amongst distributors/field force as a percentage of total sales force stands at around 6%.

5.11 Per capita revenue generation slides

The volatile domestic scenario coupled with non-availability of stable policy environment and stagnation in demand has impacted productivity of sales force. The per-capita revenue generation has been witnessing a declining trend from INR 13,197 in 2010-11 to INR 13,156 in 2011-12 and further to INR 12,404 in 2012-13. The reason could be attributed to the fact that although the sales revenue and sales force of the industry have grown, however the rate of increase in both the categories remained intact.



Table 5.11 Per-capita revenue generation by direct selling industry

Year	2012-13	2011-12	2010-11
Sales revenue (INR million)	71,641	63,851	52,294
Total sales force	57,75,345	48,53,232	39,62,522
Per - capita revenue generation (INR)	12,404	13,156	13,197

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

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

5.12 Share of men and women among Direct Sellers

With rising cost of living, it has been noticed that Direct Selling Business is not only popular among women but also among men. The share of women has always been more than 50% in Direct Selling Business. However, Indian men are looking up to this sector as a supplementary earning opportunity, as consumption basket of the families has swelled up over the years. Among 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 40.6% in 2012-13.

Table 5.12 Direct sellers' network- gender wise split (in %)

Year	Men	Women
2012-13	40.6	59.4
2011-12	37.5	62.5
2010-11	36.0	64.0

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

5.13 Pattern of commitment among Direct Sellers

The survey revealed that percentage of self-employed of total distributors base in the category of men have increased to 44% in 2012-13 from 41% in 2011-12, while the percentage of self-employed of total distributors base in the category of women registered a decline to 56% in 2012-13 from 59% in 2011-12. On the other hand, percentage of part timers of total distributors' base in category of men declined to 40% in 2012-13 from 42% in 2011-12, while percentage of part timers of total distributors' base in category of women increased to 60% in 2012-13 from 58% in 2011-12.



Table 5.13 Pattern of commitment among Direct Sellers

Particular	Category	2012-13	2011-12
Percentage of self-employed of total distributors base	Men	44%	41%
	Women	56%	59%
Percentage of part timers of total distributors base	Men	40%	42%
	Women	60%	58%

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

Direct Selling contribution to skill development

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 developed world will be faced with an ageing population. 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. With a view to meet the large deficit of skilled manpower, the government of India has set a target of skilling 500 million people by 2022. In such situations, industries such as Direct Selling has been the source of employment for many youth belonging to various segments of the society and helped to channelize the skills of young people in productive direction and create enormous employment among them.

Direct Selling plays a critical role in uplifting and developing skills of individuals that join as independent sale consultants/distributors by giving them an opportunity to work, learn, and grow by way of improving their inter-personal skills such as good communication, convincing power, etc. Most of the Direct Selling Companies offer company sponsored training program to Direct Selling Agents. Direct Selling Companies with single level operation, supervise their sales agents through a company employee. However, in multi-level operations, sales agents are introduced to the business through a sponsor. The survey reveals that firms have offered training to their sales representatives in the range of 500 man hours per quarter to 25,000 man hours/ quarter during 2012-13.

The association with Direct Selling Companies has helped in achieving improvements in self esteem and confidence of individuals. Direct Sellers who regularly participate progressively in promoting the Direct Selling Business via holding meetings and engaging themselves in interactions with the target consumer group have landed them in earning performance rewards. This sector also offers opportunities to improve presentation skills, communication skills, and motivation levels. Hence it enables in identifying the true potential of an individual coupled with an opportunity to learn, earn and develop personally.



5.14 Training

Individuals that join as sales agents/representatives/distributors are expected to have three basic qualities, including good communication skill, convincing power and should be self-motivated. Direct Selling agents are often provided with company sponsored training program, but it does not exist in all these companies. Direct Selling companies with single level operation, supervise their sales agents through a company employee. However, in multi-level operations, sales agents are introduced to business through a sponsor. The sponsor benefits from new recruits' sales, hence is strongly motivated to supervise, motivate and train them. The survey has revealed that respondent firms have offered training to their sales representatives in the range of 500 man hours per quarter to 25,000 man hours/ quarter in 2012-13.

To sum up, it has been observed from the inputs received from producers' end that the outlook for Direct Selling Industry is very bright and promising and carries potential to scale new heights in terms of sales volumes, creating self employment opportunities, contributing to India's growth and socio-economic development. However they also felt that the volatile global developments have considerable direct and indirect influence on our economy and financial system through various channels and continuous volatility in the various domestic economic indicators. In addition, volatility in the policy environment also holds a significant impact on the overall growth of this industry.

Highlights – Producer survey analysis

In India, the Direct Selling Industry came into existence in early 1990s soon after the country opened up to the global market. 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.

The sales revenue by the Direct Selling Industry reached at INR 71,641 million in 2012-13 from INR 63,851 million in 2011-12 and INR 52,294 million in 2010-11. The total sales revenue by firms during 2012-13 can be split up in to total sales revenue of INR 67,199 million by the companies belonging to organized sector and INR 4,442 million by the unorganized sector.

The Direct Selling Industry has been growing robust over the recent years. However, during 2012-13, the industry has faced a decline in its overall growth scenario due to several hurdles such as volatile global economic milieu and policy environment and declining investments. The Direct Selling Industry has registered growth rate of about 12% in 2012-13 as against healthy growth



rate²⁴ of 22% in 2011-12, 27% in 2010-11 and 24% in 2009-10. However, the respondents felt that the large share of young population and popularization of the concept of social networking and rapid increase of internet usage would be the major driving force for the sector, going ahead.

The Direct selling Industry comprises companies which are operating under organized market structure and unorganized market²⁵. It was found that during 2012-13, companies under organized sector contributed to 93.8% to the total sales revenue of Direct Selling Industry, marking a growth of about 14%. On the other hand, companies in unorganized market, contributed to 6.2% of total sales revenue of Direct Selling Industry, growing at about (-) 13%.

During 2012-13, around 56% of the Direct Selling Companies have grown at double digit rates contributed by a 35% of them growing at 11-20%, 10% of them growing at 21-30%, 8% of them growing at 31-50% and 3% growing at 50% and above. However, 18% of the companies have decelerated while 26% companies have grown within 1-10%. The reasons for scripting different levels of growth could be attributed to different sales method adopted by companies, target consumer group, products, competitiveness, etc.

Northern region— The survey revealed that the region has contributed around INR 19,343 million to the gross sales revenue in 2012-13 and exhibited growth at around 33%. The Northern region has registered a significant increase in share to gross sales revenue at 27% in 2012-13 from 20% in 2011-12 and has registered growth rate of around 33% in 2012-13 as against 56% in 2011-12.

Eastern region-- The survey revealed that the region has contributed around INR 12,179 million to the gross sales revenue in 2012-13 and exhibited growth at around 19%. The Eastern region has scripted an increase in share to gross sales revenue at 17% in 2012-13 from 15% in 2011-12 and has registered growth rate of around 19% in 2012-13 as against 32% in 2011-12.

North Eastern region-- The survey revealed that the region has contributed around INR 7,881 million in 2012-13 and exhibited growth at around 27%. The North Eastern region has scripted a marginal increase in share to gross sales revenue at 11% in 2012-13 from 10% in 2011-12.

Western region— The survey revealed that the region has contributed around INR 10,746 million in 2012-13 and exhibited growth at around 9%. The region has exhibited a decline in the share to gross sales revenue at 15% in 2012-13 from 17% in 2011-12 and registered growth rate of around 9% in 2012-13 as against 19% in 2011-12.

Southern region-- The survey revealed that the region has contributed around INR 21,492 million in 2012-13 and exhibited growth at around (-) 14%. The region holds a significant share to gross sales revenue of the industry at 30% in 2012-13 as against 38% in 2011-12. However, the growth

²⁴ IDSA Annual Surveys since FY2010

²⁵ 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.



of the region declined significantly to (-) 14% in 2012-13 as against (-) 2% in 2011-12.

The total tax paid by the IDSA member companies amounts to INR 9,869 million in 2012-13 as compared to INR 8,212 million in 2011-12, 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 20% in 2012-13 over 2011-12.

The total distributor base²⁶ of the Indian Direct Selling Industry during 2012-13 stands at 57,75,345 out of which 47,93,537 distributors are employed²⁷ by member companies, whereas, 9,81,808 distributors are employed by the non-member companies. The growth of total distributor's network stands at 18.9% in 2012-13 over 2011-12, contributed by around 20% growth among members and about 12% growth among non-members. The region wise split of distributors' network stand highest in the Southern region of the country at 16,17,097 followed by Northern region at 15,01,590, Eastern region at 10,39,562, Western region at 9,24,055 and North East at 6,93,041.

With rising cost of living, it has been noticed that Direct Selling Business is not only popular among women but also among men. The share of women has always been more than 50% in Direct Selling Business. However, Indian men are looking up to this sector as a supplementary earning opportunity, as consumption basket of the families has swelled up over the years.

²⁶ Distributors include direct sellers and independent sale consultants.

²⁷ Employment in direct selling industry is defined as self employment and micro-entrepreneurship opportunities



**DIRECT SELLING
CONTRIBUTION TO CSR**



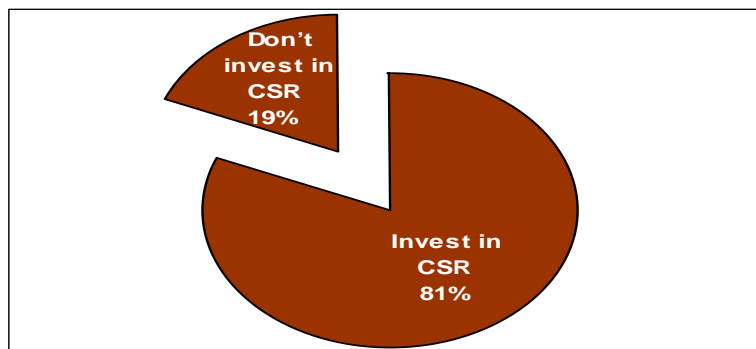
6. Direct Selling contribution to CSR

Over the years, there has been growing importance of contributions to Corporate Social Responsibility as society looks forward to companies for their commitment to contribute to the overall well being of the society by improving the quality of life of the workforce and their families as well as of the local community and society at large. A growing number of corporate feel that CSR is not just another form of indirect expense but is important for protecting the goodwill, reputation 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 mainstream business. CSR programs range from community development to development in education, environment and healthcare etc.

6.1 CSR by Direct Selling Companies in India

Around 84 Direct Selling Companies participated in the survey, of which 54 Direct Selling firms replied on CSR, of which almost 81% of the companies revealed that they contribute to various CSR activities whereas, 19% 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 0.02% to 1% in 2011-12 to 0.01% to 0.80% in 2012-13.

Graph 6.1: Pattern of investment in CSR



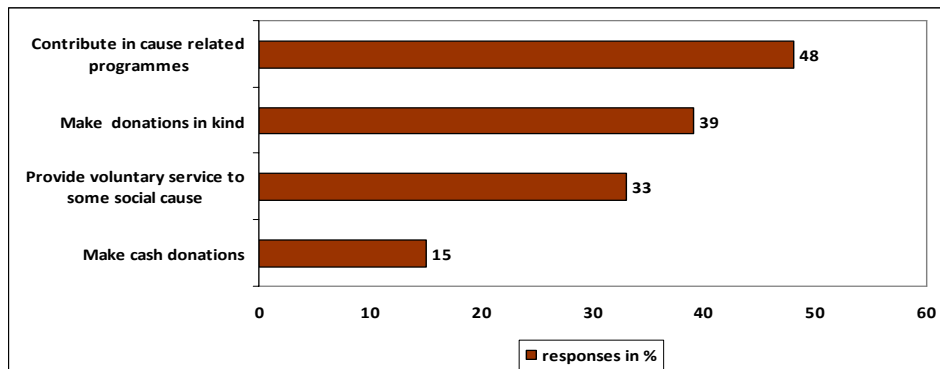
Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

CSR spending as a percentage of Gross revenue

In terms of mode of contribution by Direct Selling Companies, nearly 48% contributed to cause-related programmes, whereas 39% made contribution in kind and 33% companies provided voluntary service to some social cause. Only 15% 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 6.2: Mode of contribution to CSR activities

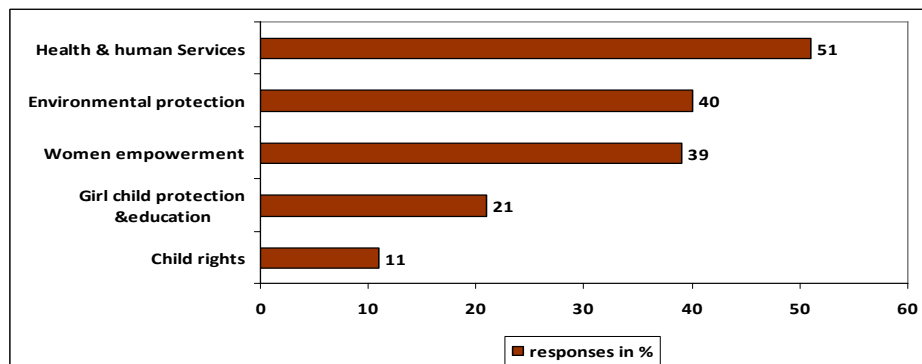


Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

Note: Multiplicity of options have been chosen by the respondents

There are a variety of areas that have been supported by Direct Selling Companies. The area that top the chart with highest attention of 51% companies is health and human services which include services rendered for old age/ orphanage homes and supporting disabled people. It is followed by environmental protection (40%) and women empowerment (39%). Nearly 21% of companies support girl child protection and education and 11% for child rights.

Graph 6.3: 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 2012-13

Note: Multiplicity of options have been chosen by the respondents

To sum up, the survey revealed that the Direct Selling firms have contributed to the society in a very positive way through their CSR initiatives, leading to more sustainable development of the society as a whole. Their contributions have spread across various segments and have benefited fruitfully to several sections of the economy. It was noted that more than 63% of the companies support more than one area for CSR activity and nearly 27% of the Direct Selling Companies take up more than 3 areas for CSR activities.



**INDIA'S DIRECT SELLING SECTOR
VIEW ON THE RECENT UNTOWARD
INCIDENTS**



7. India's Direct Selling sector view on the recent untoward incidents

With increasing importance of Direct Selling Industry in India, emerging threats from several fraudulent practices by such fly-by-night operators in unorganized sector and untoward police harassment, it is imperative to get an insight of the industry perspective on the regulatory framework governing the sector.

Almost all the respondents participated in the survey unanimously opined that the recent untoward incidents in terms of police arrests and other related investigations have severely impacted and shaken confidence of not only the Direct Selling players but also consumers too. The majority of respondents felt that due to lack of clarity between the Direct Selling Business model and fraudulent pyramid schemes such unpleasant and troublesome happenings continues which harshly hit the overall business scenario.

It has been observed that almost all companies participated in the survey felt that such unfortunate happenings in the Indian Direct Selling Sector would forward wrong signals to global companies in India and abroad and will affect the investment inflows into the country.

The investment situation in India is weakening in a highly volatile economic environment, governance concerns, heightened global uncertainty, rising funding costs and structural rigidities have all played a part. The rising global risk aversion has reduced flow of capital as foreign direct investments have been impacted significantly. Hence such incidences would hit potential and prospective investments in our country and would have a major impact on employment scenario too.

Almost all respondent companies felt that at international front; all 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 stringent laws.

Almost all respondents opined that introduction of centralised legislation across India will enable Direct Selling Industry to smoothly conduct their business by removing fraudulent operators. Further, it will augment self employment generation, boost investor confidence and therefore lead the industry to higher and higher growth trajectory. A separate body to prevent small players from entering the sector without adequate infrastructure and implementation plan was also recommended.

Further a large number of survey participants felt that the companies should have the licence to do business in India and file all mandatory returns. They should have trademarks or licences and 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.

The respondents were also of the view that there is an urgent need for organising awareness programmes jointly by the industry and the government to educate public regarding this business model and spread awareness about the genuine direct selling players in the market as compared to fraudulent activities in unorganized sector which pose threat for the Direct Selling market. 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. Hence government should intervene to regulate the activities of the industry through various guidelines for Direct Selling Industry.

7.1 Industry perception on government initiatives required

The survey revealed that around 64% 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, 36% 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.

More than 80% 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, 9% 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, 41% suggested that a separate body should be formed to check the entry of new players into the market. About 49% of the companies recommended strict laws and heavy penalties/punishments to regulate fraudulent companies.

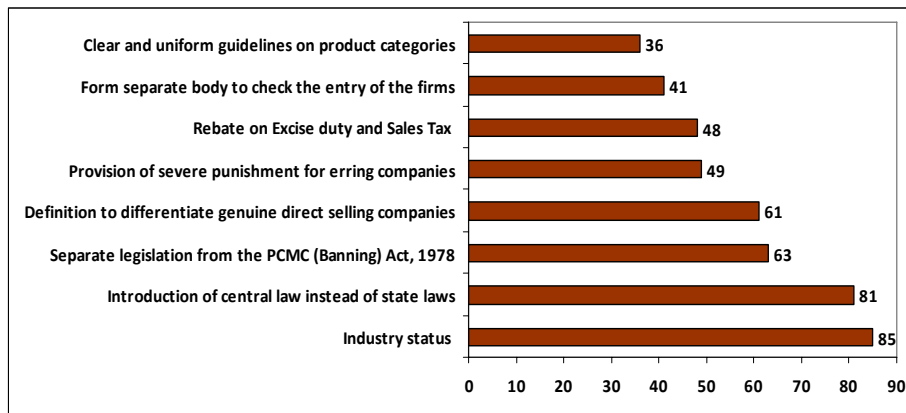
According to the survey, around 85% of the Direct Selling firms demanded industry status and as many as 63% firms demanded a separate legislation, from the Prize Chits and Monetary Circulation scheme (Banning) Act, 1978 as it only governs chit funds but does not apply to Direct Sellers. Nearly, 48% Direct 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 36% companies want clear and uniform guidelines on product categories. There is a demand of 61% Direct Selling Companies to provide a definition to differentiate the genuine Direct Selling Companies from fraudulent fly by night operators working without any credible product line.

Graph 7.1: Industry perceptions on government initiatives required (%)



Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

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



**DIRECT SELLING:
AIMING HIGH DESPITE HURDLES**



8. Direct Selling: Aiming high despite hurdles

The global growth is in low gear and its underlying dynamics are changing. Though the advanced economies are gradually strengthening, growth has slowed in emerging market economies. The world economy is facing a rough patch with most of advanced economies including the Euro area and the USA facing complex macroeconomic challenges. These changing growth dynamics raise new policy challenges, and policy spillovers may pose greater concern for emerging market and developing economies. 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 2.9% and for 2014 to 3.6%. The advanced economies have recently gained some speed, while emerging market economies have slowed. The emerging market economies, however, continue to account for the bulk of global growth. Advanced economies are projected to grow at 1.2% in 2013 and 2% in 2014. Emerging market and developing economies are expected to grow at 4.5% in 2013 and 5.1% in 2014

The global economic scenario is volatile and uncertain coupled with volatile performance scripted by major economies in their private consumer expenditure scenario. The growth in private consumer expenditure has fell for major advanced economies from about 1.9% during 2010 to 1.4% in 2012 and expected to reach at 1.5% in 2013 and 1.8% in 2014. The same trend has been witnessed for Newly Industrialized Asian Economies which also declined from 4.7% in 2010 to 3.2% in 2013.

Table 8.1: Private consumer expenditure across regions/countries (Y-o-Y % Change)

Countries	2014	2013	2012	2011	2010
United States	2.4	2.0	2.2	2.5	2.0
Euro Area	0.5	-0.7	-1.4	0.3	1.0
Japan	0.9	2.0	2.3	0.4	2.8
Major Advanced Economies	1.8	1.5	1.4	1.7	1.9
Newly Industrialized Asian Economies (NIAE)	NA	3.2	2.4	3.4	4.7

Source: PHD Research Bureau, compiled from IMF, Note: NA: Not available

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 coming times. The Indian economy, and Indian industry, today faces the most serious crisis since the last many years. Presently, the domestic scenario has witnessed deceleration in almost all the lead economic indicators. The growth of real GDP has been



impacted significantly in recent times. The real GDP growth decelerated to 4.6% during Apr-Sep (H1) FY2014 and 5% during FY2013 as compared with 6.2% in FY2012 and 9.3% in FY 2011. The agriculture sector in India is at crossroads with rising demand for food items and relatively poor supply side. The sector's contribution in GDP has been decelerated to around 15% during the recent years (FY09-13) from around 18% in the high growth period (FY05-FY08). The slowing of industrial output from an average of 8.5% in FY2011 to 2.6% in FY2012, 1.1% in FY 2013 and 0.4% during April-Sep (H1) FY2014 is raising concerns. The growth in services sector has been vibrant over the past many years, contributing sizably to India's steady growth story. However the recent slowdown in the sector from around 9.8% in FY 2011 to 8.2% in FY 2012 to 7.1% in FY 2013 and 6.6% during H1 FY2014 is a cause of concern.

Inflation has been a major cause and challenge creating a road block to India's growth story. The investment situation in India is weakening. The difficulty of forecasting returns in a highly volatile economic environment, governance concerns, heightened global uncertainty, rising funding costs and structural rigidities have all played a part. The rising global risk aversion has reduced the flow of capital as the FDI investments have been impacted significantly which is indicated from the sharp decline in FDI by (-)11% during Apr-Sep (H1) FY2014 and (-)38% during FY2013 as compared to a robust growth of 88% during FY2012. The portfolio investments also, in terms of FIIs have shown a volatile trend causing instability in the domestic stock markets.

The exchange rate volatility has also risen significantly with the onset of world economic slowdown, with the rupee depreciating the most among the major Asian economies. On the other hand concerns about global growth have impacted investors' sentiments and de-leveraging by many advanced economies has raised the cost of external finance.

However, despite 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, at around 27% in 2010-11, at 22% in 2011-12 and at 12% in 2012-13. A decline in growth of sales revenue was noticed in 2011-12 at 22% as against last year due to stagnation in consumption demand owing to the persisting slowdown in the economy. However, with constant volatility in international and national economic scenario poses greater risks for the Direct Selling Sector which further slips to a growth rate of 12.2% in 2012-13.

Further the volatility in the policy environment, as the industry has been victimized by frequent fraudulent activities that have impacted the goodwill of the Direct Selling Businesses which contributed significantly to a fall in the overall growth of the industry. The mood of the industry is currently in the phase of dejection and despair. In addition, the recent cases in the Southern region particularly harassment by police has not only impacted the Direct Selling Business but



also the setback was observed in other regions of the country. Such activities results in shaking buyer’s confidence, de-motivation of the Direct Sellers and above all it damages the reputation and image of genuine market player as a whole.

The survey revealed that about 45% of the companies felt that there has been no impact on revenues or Direct Sellers due to the economic slowdown, while 29% felt that though, revenues have been impacted, but Direct Sellers have grown over the previous year. Another 26% felt that the level of both revenues and Direct Sellers has fallen over the previous year.

Table 8.2: Impact of economic slowdown on Direct Selling Business

Category	Percentage of respondents
There has been no impact on revenues or Direct Sellers	45%
Revenues have been impacted, but Direct Sellers have grown over previous year	29%
The level of both revenues and Direct Sellers has fallen over the previous year	26%

Source: PHD Research Bureau, Annual Survey of the India’s Direct Selling Industry 2012-13

Although the Direct Selling Industry has scripted a decline in the growth rate in 2012-13, it is indeed encouraging to find that the sector 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 smaller towns, the industry has enormous potential to enhance its market presence in the coming times.



CONSUMER SURVEY ANALYSIS



9. Consumer survey analysis

Direct Selling is the action of marketing of the products/services to consumers in a non-retail milieu i.e. generally from home or workplace with the help of explanation and demonstration of the products by a Direct Seller. The Direct Selling Sector is evolving year after year, attracting the attention of new players with new and better products to meet the diverse needs of consumers. The familiarity about the sector relies heavily on word-of-mouth publicity. This medium of marketing has strong reliance among stakeholders. Hence, it becomes imperative to obtain the insight of the industry through the consumers of Direct Selling products. Thus, a survey was conducted amongst a random sample of individuals from different segments of the society who were targeted through field surveys for better outlook of the sector and inferences have been derived on the responses received.

9.1 Sample characteristics

The survey pertains to responses from individuals who were randomly selected for survey from across various segments of the society and the sample size chosen for the study is 2,344. Out of the total 2,344 respondents, 59% are females and remaining 41% are males. Whereas, 66% of the sample respondents are married, while 34% are single. It has been observed that women are more amenable to Direct Selling than men because a large number of the products sold by Direct Selling have direct appeal to women. The survey was conducted capturing respondents with direct interaction from field and also through e-mails.

Since it was not feasible to survey all cities due to time constraints, responses were received from cities including Delhi, Mumbai, Pune, Chennai, Kolkata, Bengaluru, Hyderabad, Gurgaon, Dehradun, Mussorie, Shimla, Muzaffarpur, Chandigarh, Lucknow, Patna, Bokaro, Ambala, Amritsar, Udaipur, Vadodara, Cochin, Ludhiana, Bhubaneswar, Allahabad, Faridabad, Bhopal, Indore, Raipur, Bilaspur, Ranchi, Itanagar, Guwahati, Surat, Jaipur, Sriganaga Nagar, Agartala, Aizawl, Dimapur, Panchkula, Gwalior, Kolkata, Bhubneswar, Shillong, Imphal, Gangtok, Gandhinagar, Panaji, Kashmir, Thiruvananthapuram, Silvassa, Daman, Port Blair, Kavaratti and Puducherry. Nearly 72 % of the responses were from the participants residing in tier I cities²⁸.

Majority of the respondents surveyed belonged to age group of 21-30 years, representing 46% of the total sample population. It was followed by individuals within 31-40 years (22%), within 41-50 years (13%) and more than 50 years (11%). The largest share of respondents served the corporate sector including private Indian and Multi-National companies contributing 45% of

²⁸ 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.



responses, while 18% were house wives, 17% served the government, 13% self employed and 7% students. Nearly 49% of the survey respondents have family size with 2-4 members, whereas, 39% respondents had a family size of 5-7 and 12% respondents had a family size of more than 7.

Table 9.1: Characteristics of Respondent(s)

Category	Respondent(s) in %
<i>Tier-wise classification</i>	
Tier I	72
Tier II	17
Tier III	11
<i>Gender-wise classification</i>	
Female	59
Male	41
<i>Status-wise classification</i>	
Single	34
Married	66
<i>Age group classification</i>	
Less than 20 years	8
21-30 years	46
31-40 years	22
41-50 years	13
More than 50 years	11
<i>Occupation classification</i>	
Government sector –Central & State	17
Corporate sector (Indian Private Companies and Multi-National Companies)	45
Self Employed	13
Housewife	18
Student	7
<i>Family size classification (number of members)</i>	
More than 7	12
2-4	49
5-7	39
<i>Income group classification (per month)</i>	
INR 10,000- INR 20,000	7
INR 20,001-INR 30,000	8
INR 30,001-INR 40,000	16
INR 40,001-INR 50,000	27
More than INR 50,000	42
<i>Chief family earners classification</i>	
Father	30
Husband	49
Self	21

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13



It was revealed that out of the total respondents, 42% of representatives have household income²⁹ more than INR 50,000 per month. It was followed by respondents earning in the range of INR 40,001-50,000 per month (27%) and INR 30,001-40,000 per month (16%) among others. For nearly 49% of the respondents, husbands are the chief earner in their household.

9.2 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:

- 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 7% 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 4% of the responses.
- 3) It was found that 89% of the sample population are completely well aware and have familiarity with the concept of Direct Selling.

9.3 Direct Selling relies heavily on word-of-mouth publicity; gradually moves beyond

The Direct Selling Industry relies heavily on the word-of mouth publicity as the consumers perceive the word-of-mouth recommendation the most trusted one. The large number of respondents opined that their purchasing decisions are largely influenced by this means of marketing. As per the survey findings, it was revealed that nearly 73% of the individuals are familiar or have purchased Direct Selling products depending on word-of-mouth publicity.

Almost all respondents unanimously responded that its influence is utmost when consumers are purchasing a product for the first time or when products are relatively expensive and requires first hand inputs which tend to make people conduct more research and seek more opinions.

The survey revealed that 24% 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 (15%), colleagues (14%) and neighbours (7%) play a significant 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 17% of the respondents used this source for their information.

²⁹ Household income includes income generated by all earning members of the family



Table 9.2: Source of Direct Selling publicity

Source of Direct Selling Publicity	Respondent(s)%
Friends	24
Relatives	15
Colleagues	14
Direct Seller	13
Neighbour	7
Internet	17
TV/Radio	7
Newspaper/Pamphlets	3

Word of mouth
publicity

(73 %)

Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

However, it has also been observed that in times of intense competition prevailing in market offers opportunity and at the same time becomes a key issue in meeting demands in these challenging times, it has also been observed that gradually other means of marketing are also increasing for generating awareness and publicity regarding products in the markets such as online social networking, TV, print media, pamphlets etc. Presently product reviews are posted online and opinions disseminated through social networks among consumers, which is rapidly extending these days and has influenced the consumer buying decisions.

9.4 Type of product purchase

With increasing health consciousness among consumers and rapid increase in inclination towards a good quality of life, it has been observed that customers preferred to consume wellness/healthcare products capturing a share of 34%. The products sold through Direct Selling are quiet attractive to female consumers which is indicated from the fact that cosmetics and personal care ³⁰products have been found to be the second most popular product category capturing a share of 30%. It was followed by home care/home improvement products³¹ (12%), consumer and household durables³² (10%) and food/beverages (8%)

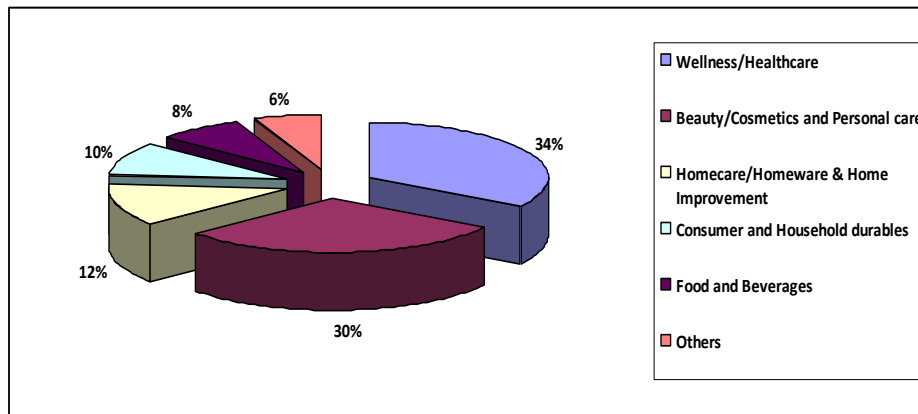
³⁰ Make-up products, skin care products, hair-care products, Clothing, lingerie, sleepwear, shoes, fashion jewellery, fashion watches, accessories & personal items

³¹ 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

³² 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 9.1: Direct selling products purchased by respondents (%)



Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13
Note: Others include Agricultural products, educational products, utilities, promotional items etc.

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

The consumers' perception and attitude hold a significant say in determining their purchasing behaviour. There are diverse reasons, situation and needs of a consumer that motivates him/her to purchase or not to purchase a product. In addition, attributes which are merely the features/characteristics of the product, its brand name, service, advertisement or any object of interest also plays an important role for pushing a consumer for its demand or non-demand, even without the requirement or necessity.

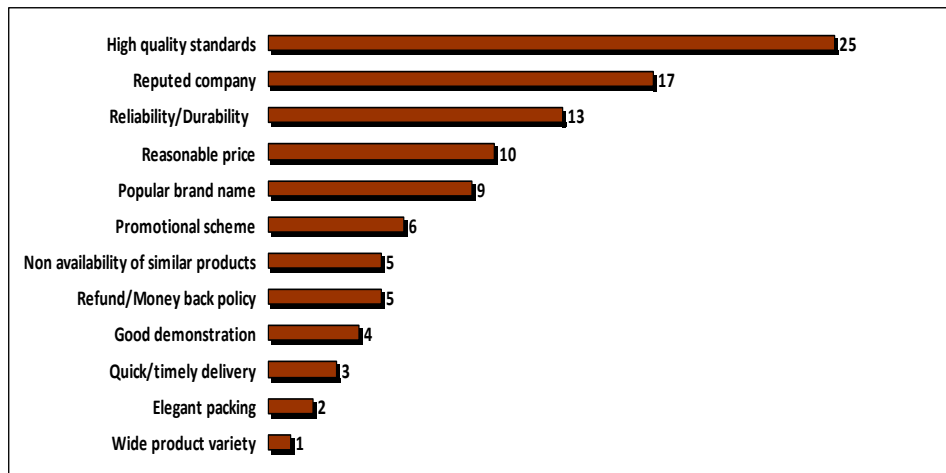
The survey revealed that 74% of the respondents have purchased/re-purchased Direct Selling products which may be attributed to several reasons such as personalized attention, the chance to ask questions, chance to try products or have them personally demonstrated and finally the trust and confidence on the word-of-mouth usage by relatives, friends or neighbours have been attributed for this. However, remaining 26% have not purchased/re-purchased any products as they were not very positive on these products.

9.5.1 Positive attributes for purchasing/re-purchasing

As per the survey, out of the 1735 (74% of the respondents who have purchased/ re purchased products) consumers, 25% of the respondents rely mainly on high quality standards of products for purchasing/re-purchasing. The other attributes include reputed company (17%), reliability/durability (13%), reasonable price (10%) and popular brand name (9%) among others.



Graph 9.2: Factors for purchase/re-purchase (responses in %)

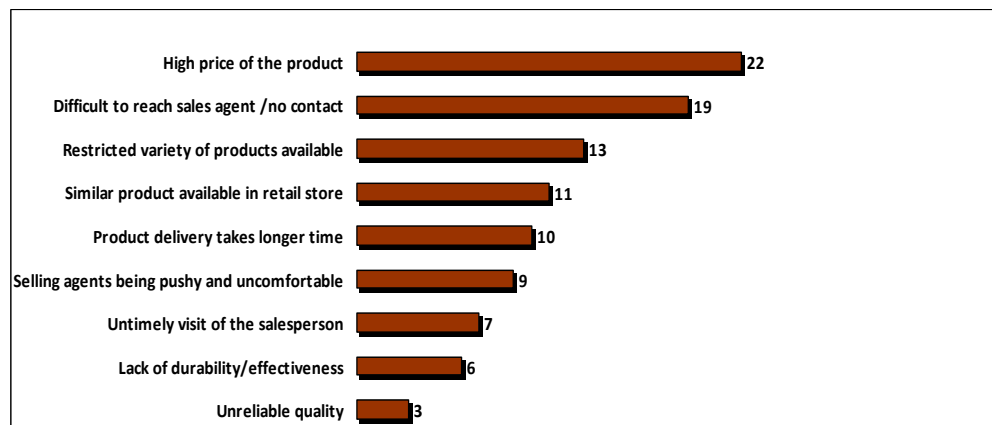


Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13

9.5.2 Factors for not purchasing/non-re-purchase

Out of the 609 respondents (26% of the total respondents who have not purchased/non-repurchased), high prices acted as deterrents as it kept nearly 22% of the survey participants away from purchasing it. Around 19% respondents experienced difficulty to reach or contact Direct Seller of Direct Selling Company and around 13% of the participants felt that there are selective varieties of products available and more options are available at retail outlets.

Graph 9.3: Factors for non purchase/non-repurchase (responses in %)



Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13



Direct Selling encounters price rigidity and less price elasticity

Almost all the respondents during the consumer survey were of the view that the prices offered on Direct Selling products is significantly rigid, which are sold at certain fixed amount i.e MRP, which leaves lesser scope in the hands of consumers to bargain. As a result, this plays a critical factor in influencing their purchasing decision behaviour.

With the perception of non-flexible and rigid price structure, a large number of consumers opined that their buying decision gets affected with rigidity in the prices offered on Direct Selling products and affects their bargaining power, which is a key factor in inducing large number of consumers under the net. It was also observed during the consumer survey, that if prices of products are flexible in nature, it is possible that it may influence the buying decision of the consumer.

Further it has been observed during the survey that health care and beauty cosmetics products are largely purchased by the consumers of Direct Selling Sector. But according to the consumer survey participants, the healthcare products come with prescription, therefore, the consumption of these products can not be altered by the buyer on their own and they have to consume by prescribed amount only. Thus the demand for these products does not increase or decrease due to price fluctuations. Further according to consumers of Direct Selling Sector, cosmetic products are also not significantly impacted by price fluctuations as consumption of these products remains same for a certain time period and their demand may or may not increase/decrease over the shorter term.

As a result generally elasticity of price does not work in this sector. The price elasticity of demand may be defined as measure used in economics to show the responsiveness or elasticity of the quantity demanded of a good or service to change in its price. Hence with the decline in the prices consumers don't increase their consumption expenditure and may not provide an advantage of the increase in demand.

Large number of respondents unanimously felt that high and rigid prices associated with the direct selling products have made these products accessible to selective sections of people particularly to the higher income group of the society. Many respondents also opined that most of the time distributors/independent sales consultants are being incentivised for achieving targets and receive rewards by the companies. Further they also opined that promotional policies adopted by Direct Selling companies in terms money back policy, buy back policy and return back offers an advantage to distributors, however consumers felt that these schemes don't incentivised them in terms of prices.



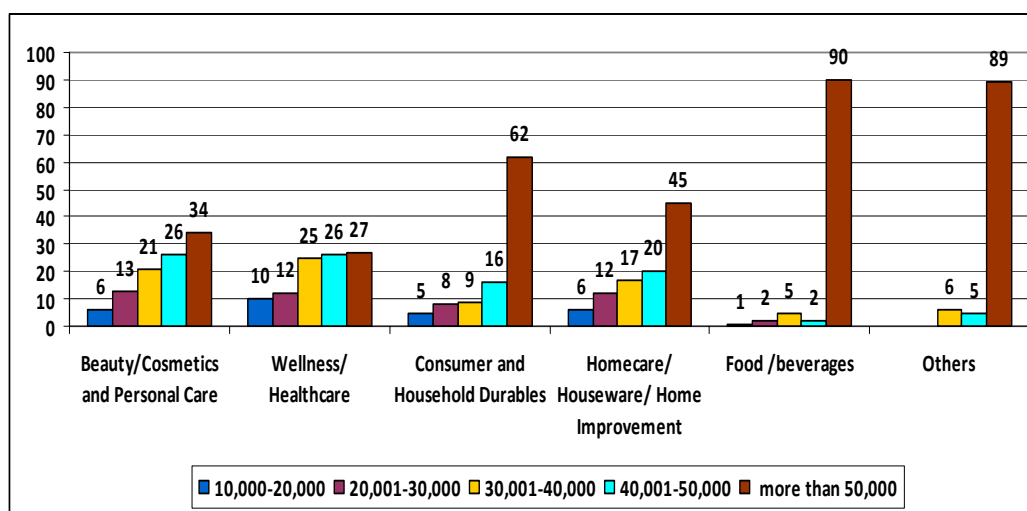
In few cases, consumers reported that Direct Sellers came across as an intrusion, and that they were concerned about letting strangers into their homes, being subjected to high sales pressure and the use of misleading, deceptive and unfair sales tactics, ending up buying products they didn't need and paying an unfair price for products.

9.6 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 2,344 respondents, 10% in this income bracket have purchased wellness/healthcare products, followed by cosmetics/personal care products and home care/home improvement (6% each) and consumer and household durable (5%).

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 34%. This was followed by consumers in income group of INR 40,001-50,000 per month at 26% and INR 30,001-40,000 per month at 21%. Similarly, for wellness and health care 27% was captured by the highest income group followed by 26% by the second highest income class. However, in case of other products it was found that 89% share was captured by the highest income group, whereas marginal shares of 6% and 5% were captured by INR 30,001-40,000 category and INR 40,001-50,000 category respectively.

Graph 9.4: 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 2012-13



In nutshell, with rising awareness regarding Direct Selling products and changing value perception and high quality consumer reach supported with demonstration effect, the large sections of the society are being attracted towards the same. However, high prices associated with these products have made these products accessible to selective sections of people. Going ahead, 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.

Highlights-- Consumer survey analysis

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: 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 7% of the respondents. 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 4% of the responses. It was found that 89% of the sample population are completely well aware and have familiarity with the concept of Direct Selling.

The Direct Selling Industry relies heavily on the word-of mouth publicity as the consumers perceive the word-of-mouth recommendation the most trusted one. The large number of respondents opined that their purchasing decisions are largely influenced by this means of marketing. As per the survey findings, it was revealed that nearly 73% of the individuals are familiar or have purchased Direct Selling products depending on word-of-mouth publicity. The survey revealed that 24% 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 (15%), colleagues (14%) and neighbours (7%) play a significant 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 17% of the respondents used this source for their information.

With increasing health consciousness among consumers and rapid increase in inclination towards a good quality of life, it has been observed that customers preferred to consume wellness/healthcare products capturing a share of 34%. The products sold through Direct Selling are quiet attractive to female consumers which is indicated from the fact that cosmetics and personal care 33 products have been found to be the second most popular product category capturing a share of 30%. It was followed by home care/home improvement products³⁴ (12%), consumer and household durables³⁵ (10%) and food/beverages (8%)

With rising awareness regarding Direct Selling products and changing value perception and high quality consumer reach supported with demonstration effect, the large sections of the society are being attracted towards the same. However, high prices associated with these products have made these products accessible to selective sections of people. Going ahead, 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.

³³ Make-up products, skin care products, hair-care products, Clothing, lingerie, sleepwear, shoes, fashion jewellery, fashion watches, accessories & personal items

³⁴ 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

³⁵ 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



CHALLENGES FACED BY INDIAN DIRECT SELLING INDUSTRY



10. Challenges faced by Indian Direct Selling Industry

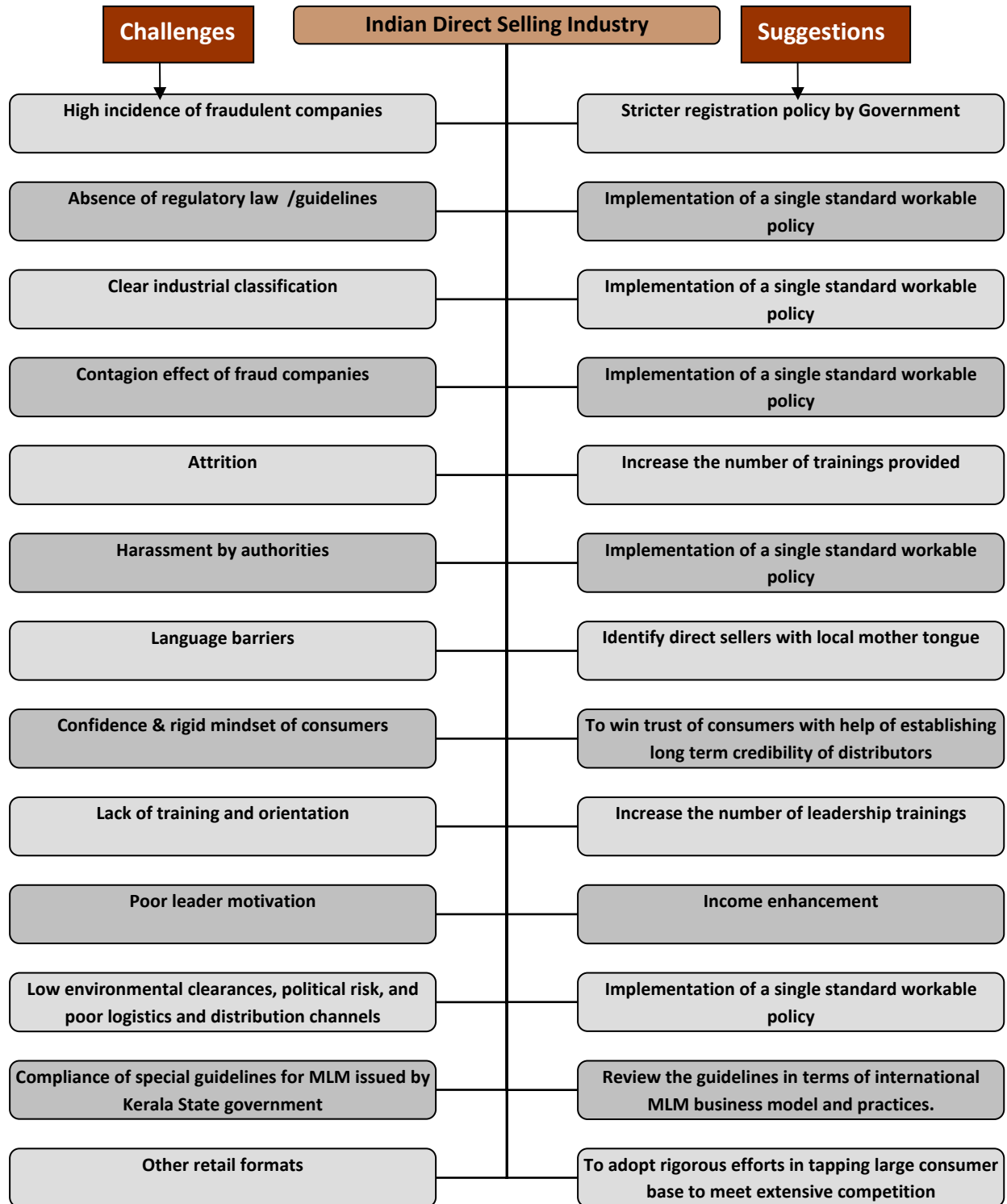
With the growth drivers in place, there are many issues and challenges which remains bottleneck for growth of Indian direct selling industry. It has been observed that Direct Selling Sector is grappled with changing consumer preferences. Today, consumers have high demands on price and quality, and are increasingly choosing a different brand or product over the other. The recent rise of private-label goods has led to increased competition within the market.

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 format has their own set of consumers. Among all these modes, only Direct Selling rely 73% 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.

Further volatile and gloomy global economic milieu also plays a key role in impacting business operations which result in impacting the investment and demand scenario of the economy. Sustained inflationary pressures is one of the major challenge which impact the business as it could boost operational costs and end up in leaving less commissions or incentives for distributors. 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 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 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 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 process of setting up pan-India supply chain and manufacturing facilities, hindering the smooth performance of this sector. Further the volatility in the policy environment, as the industry has been victimized by frequent fraudulent activities that have impacted goodwill of the Direct Selling Businesses which contributed significantly to a fall in the overall growth of the industry. The mood of the industry is currently in the phase of dejection and despair. In addition, the recent cases in the Southern region, particularly, harassment by police has not only impacted the Direct Selling Business but also the setback was observed in other regions of the country. Such activities results in shaking buyer's confidence, de-motivation of the Direct Sellers and above all it damages the reputation and image of genuine market player as a whole.





Source: PHD Research Bureau, Annual Survey of the India's Direct Selling Industry 2012-13



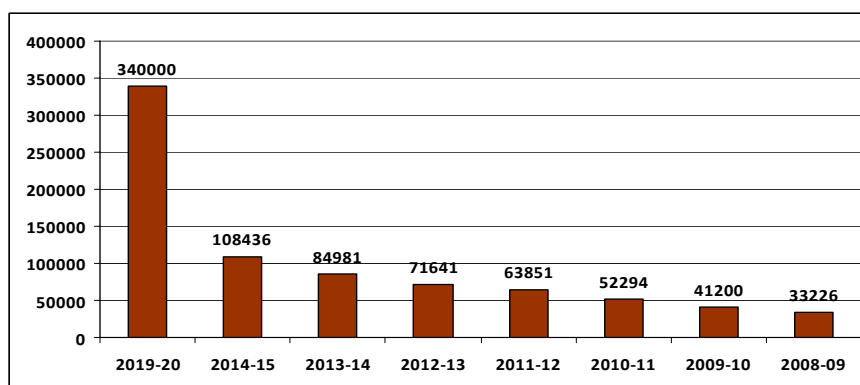
A decorative graphic on the left side of the page consists of several vertical lines of varying heights. Each line is topped with a series of upward-pointing chevrons. From the base of these lines, horizontal arrows of varying lengths point to the right. The arrows are arranged in a staggered, overlapping fashion, creating a sense of movement and growth. The color palette is composed of various shades of brown and tan, with some arrows in a darker, more saturated brown.

FUTURE OUTLOOK OF INDIAN DIRECT SELLING INDUSTRY

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. Although the Direct Selling Industry is currently running in slow gear, growth prospects of the industry are bright which is set to take off, driven by strong consumer base and expanding markets going forward. The survey revealed that respondents were 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 71,641 million in 2012-13.

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 2012-13

Though the growth of the industry vary across its different segments like organized and unorganized sector. However, overall the industry is slated to grow at an average of more than 20% in the next three years by 2016. Further, they felt that in 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 2012-13

According to 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.



CONCLUSIONS



12. Conclusions

Over the years, Direct Selling Industry is a rapidly emerging as an alternative sales distribution channel, boosting self employment and holds immense importance to the economic system, contributing to the exchequer, providing financial stability and encouraging women empowerment. However, with the current volatile global as well as domestic milieu, emerging threats from fraudulent activities and lack of regulatory framework pose threats for the sector, which is presently standing at crossroads.

The sales revenue³⁶ of the Indian Direct Selling Industry has registered remarkable growth over the recent years. However, during 2012-13, it has been observed that Direct Selling has marked a decline in its overall growth scenario. The major reason according to the survey is attributed to the volatile global as well as domestic scenario; as these developments have considerable direct and indirect influence on our economy and financial system through various channels. Other reasons may be attributed to the volatility in the policy environment, as the industry has been victimized by frequent fraudulent activities that have impacted the goodwill of the Direct Selling Businesses.

The sales revenue by the Direct Selling Industry reached at INR 71,641 million in 2012-13 from INR 63,851 million in 2011-12 and INR 52,294 million in 2010-11. The total sales revenue by firms during 2012-13 can be split up in to total sales revenue of INR 67,199 million by the companies belonging to organized sector and INR 4,442 million by the unorganized sector. The Direct Selling Industry has registered growth rate of about 12% in 2012-13 as against healthy growth rate³⁷ of 22% in 2011-12, 27% in 2010-11 and 24% in 2009-10.

The Direct Selling Industry comprises companies which are operating under organized market structure and unorganized market³⁸. It was found that during 2012-13, companies under organized sector contributed to 93.8% to the total sales revenue of Direct Selling Industry, marking a growth of about 14%. On the other hand, companies in unorganized market, contributed to 6.2% of total sales revenue of Direct Selling Industry, growing at about (-) 13%.

³⁶ The figures used for sales revenue in the Annual Survey 2012-13 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.

³⁷ IDSA Annual Surveys since FY2010

³⁸ 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.



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 47%, whereas, beauty/cosmetics and personal care and home ware and home improvements products have captured 35% and 11% shares respectively. This is followed by 4% share of consumer and household durables, 2% share belonging to other categories and a meagre share of 1% to foodstuffs and beverages.

The Northern region of India has contributed around INR 19,343 million to the gross sales revenue in 2012-13 and exhibited growth at around 33%. The Northern region has registered a significant increase in share to gross sales revenue at 27% in 2012-13 from 20% in 2011-12 and has registered growth rate of around 33% in 2012-13 as against 56% in 2011-12.

The Eastern region of India has contributed around INR 12,179 million to the gross sales revenue in 2012-13 and exhibited growth at around 19%. The Eastern region has scripted an increase in share to gross sales revenue at 17% in 2012-13 from 15% in 2011-12 and has registered growth rate of around 19% in 2012-13 as against 32% in 2011-12. The North Eastern region has contributed around INR 7,881 million in 2012-13 and exhibited growth at around 27%. The North Eastern region has scripted a marginal increase in share to gross sales revenue at 11% in 2012-13 from 10% in 2011-12. While the region has exhibited a significant decline in the growth scenario at 27% in 2012-13 from 37% in 2011-12.

The western region of the country has contributed around INR 10,746 million in 2012-13 and exhibited growth at around 9%. The region has exhibited a decline in the share to gross sales revenue at 15% in 2012-13 from 17% in 2011-12 and registered growth rate of around 9% in 2012-13 as against 19% in 2011-12. The Southern region has been the largest and most well established market for the Direct Selling Industry in the past few years. The region has contributed around INR 21,492 million in 2012-13 and exhibited growth at around (-) 14%. The region holds a significant share to gross sales revenue of the industry at 30% in 2012-13 as against 38% in 2011-12. However, the growth of the region declined significantly to (-) 14% in 2012-13 as against (-) 2% in 2011-12.

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 and further to 22.4% in 2012-13. The total tax paid by the IDSA member companies amounts to INR 9,869 million in 2012-13 as compared to INR 8,212 million in 2011-12, 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 20% in 2012-13 over 2011-12.



The total distributor base³⁹ of the Indian Direct Selling Industry during 2012-13 stands at 57,75,345 out of which 47,93,537 distributors are employed⁴⁰ by member companies, whereas, 9,81,808 distributors are employed by the non-member companies. The growth of total distributor's network stands at 18.9% in 2012-13 over 2011-12, contributed by around 20% growth among members and about 12% growth among non-members. The steady growth is mainly attributed to factors such as entry of new firms, expansion of business to different cities and more youth joining the force. The region wise split of distributors' network stand highest in the Southern region of the country at 16,17,097 followed by Northern region at 15,01,590, Eastern region at 10,39,562, Western region at 9,24,055 and North East at 6,93,041.

With rising cost of living, it has been noticed that Direct Selling Business is not only popular among women but also among men. The share of women has always been more than 50% in Direct Selling Business. However, Indian men are looking up to this sector as a supplementary earning opportunity, as consumption basket of the families has swelled up over the years.

The volatile domestic scenario coupled with non-availability of stable policy environment and stagnation in demand has impacted productivity of sales force. The per-capita revenue generation has been witnessing a declining trend from INR 13,197 in 2010-11 to INR 13,156 in 2011-12 and further to INR 12,404 in 2012-13. The reason could be attributed to the fact that although the sales revenue and sales force of the industry have grown, however the rate of increase in both the categories remained intact.

Around 84 Direct Selling Companies participated in the survey, of which 54 direct selling firms replied on CSR, of which almost 81% of the companies revealed that they contribute to various CSR activities whereas, 19% 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 0.02% to 1% in 2011-12 to 0.01% to 0.80% in 2012-13.

The Direct Selling Industry relies heavily on the word-of-mouth publicity as the consumers perceive the word-of-mouth recommendation the most trusted one. The large number of respondents opined that their purchasing decisions are largely influenced by this means of marketing. As per the survey findings, it was revealed that nearly 73% of the individuals are familiar or have purchased Direct Selling products depending on word-of-mouth publicity.

With increasing health consciousness among consumers and rapid increase in inclination towards a good quality of life, it has been observed that customers preferred to consume wellness/healthcare products capturing a share of 34%. The products sold through Direct Selling

³⁹ Distributors include direct sellers and independent sale consultants.

⁴⁰ Employment in direct selling industry is defined as self employment and micro-entrepreneurship opportunities



are quiet attractive to female consumers which is indicated from the fact that cosmetics and personal care ⁴¹products have been found to be the second most popular product category capturing a share of 30%. It was followed by home care/home improvement products⁴² (12%), consumer and household durables⁴³ (10%) and food/beverages (8%)

The survey revealed that 74% of the respondents have purchased/re-purchased Direct Selling products which may be attributed to several reasons such as 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 26% have not purchased/re-purchased any products as they were not very positive on these products.

In nutshell, with rising awareness regarding Direct Selling products and changing value perception and high quality consumer reach supported with demonstration effect, the large sections of the society are being attracted towards the same. However, high prices associated with these products have made these products accessible to selective sections of people.

Going ahead, 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.

⁴¹ Make-up products, skin care products, hair-care products, Clothing, lingerie, sleepwear, shoes, fashion jewellery, fashion watches, accessories & personal items

⁴² 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

⁴³ 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



Indian Direct Selling Industry so far

Category	2012-13	2011-12	2010-11	2009-10
Gross sales revenue (INR Million)				
Member	44,059	37,672	30,080	23,500
Non-Member	27,582	26,179	22,214	17,700
Organised sector	67,199	58,743	47,953.60	37,492
Unorganised sector	4,442	5,108	4,340	3,708
Gross sales revenue	71,641	63,851	52,294	41,200
YOY growth (in %)	12.2	22.1	26.9	24
Gross sales revenue (USD Million)				
Member	809.9	786.5	661.1	495.8
Non-Member	507	546.5	488.2	373.4
Organised sector	1,235.2	1,226.4	1,053.9	791
Unorganised sector	81.7	106.6	95.4	78.2
Gross sales revenue	1,316.9	1,333	1,149.3	869
YOY growth (in %)	(-) 1.2	16	27.6	24.5
Regional share in gross sale revenue (in %)				
North	27	20	15	12
East	17	15	14	13
North-East	11	10	7	6
West	15	17	20	21
South	30	38	44	48
Contribution to exchequers by member companies (INR Million)				
Total taxes paid	9,869	8,212	6,470	4,090
Direct taxes	2,931	2,218	1,628	1,390
Indirect taxes	6,938	5,994	4,842	2,700
Direct selling distributor's (numbers)				
Distributor's Member	47,93,537	39,80,016	32,04,522	25,65,418
Distributor's Non-member	9,81,808	8,73,216	7,58,000	6,21,000
Distributor's Total	57,75,345	48,53,232	39,62,522	31,86,418
Growth of distributor's (in %)	18.9	22.5	24.5	-
Male distributors	23,44,790	18,19,962	14,26,508	9,55,925
Female distributors	34,30,555	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.



Notes



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