



The Indian Direct Selling Industry

Annual Survey 2010-11

Expanding Horizons...

PHD RESEARCH BUREAU

PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi 110016

Phone: 91-11-26863801-04, 49545454, Fax: 91-11-26855450, 26863135

E-mail: research@phdcci.in Website: www.phdcci.in

DISCLAIMER

The Indian Direct Selling Industry, Annual Survey 2010-11, is prepared by PHD Chamber of Commerce and Industry to study the growth dynamics of the Indian direct selling industry, through survey based empirical analysis. This report may not be reproduced, wholly or partly in any material form, or modified, without prior approval from PHD Chamber of Commerce and Industry.

It may please be noted that this report is for guidance and information purposes only. Though due care has been taken to ensure the accuracy of the information to the best of the PHD Chamber's knowledge and belief, it is strongly recommended that the readers should seek specific professional advice before making any decisions.

Please note that the PHD Chamber of Commerce and Industry does not take any responsibility for outcome of decisions taken as a result of relying on the content of this report. PHD Chamber of Commerce and Industry shall in no way, be liable for any direct or indirect damages that may arise due to any act or omission on the part of the Reader or User due to any reliance placed or guidance taken from any portion of this publication.

Copyright 2012
PHD Chamber of Commerce and Industry

ALL RIGHTS RESERVED.

No part of this publication including the cover, shall be reproduced, stored in a retrieval system, or transmitted by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of, and acknowledgement of the publisher (PHD Chamber of Commerce and Industries).

**Susmita Shekhar**

Message

Secretary General, PHD Chamber

The Annual Survey 2010-11 for the Indian direct selling industry, is an addition to the series of annual surveys that are undertaken by the Indian Direct Selling Association to assess the growth dynamics of the industry. I am very happy to share that the PHD Chamber has collaborated with IDS A to publish this report this year. It gives me immense pleasure and honour to present it to our esteemed readers. It is an exhaustive survey based empirical report on the economic performance of the direct selling industry and its evolution over the last few years based on several parameters.

The economic history of India is witness to its transition from a colonial country to self sufficient nation and further to a steadily growing global power. With the increase in growth rate and per capita income, the growth in urbanization and the middle class population has become visible. The Indian consumer market has grown by leaps and bounds in the process and this growing unsaturated market has 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 is fast catching up in the country. However, despite its robust double-digit growth, limited information about the sector is available.

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

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

**Chavi Hemanth**

Message

Secretary General, IDSA

Indian Direct Selling Association is always in a process to overhaul research on direct selling industry. Henceforth, we come up with Survey Report every year to expound the term "DIRECT SELLING" in this vacillating Global as well as Indian Market. The Indian Economy has open hands for new entrepreneurs and new companies means Indian Economy has a movement of unending expansion for growth. The partially discovered 'direct selling industry' has added much to its positive trajectory this year also. This survey has justified the same through its findings.

It is a pleasure to bring another survey report for all those who are related to this industry and to those who want to discover it completely. Indian market is now gradually inclining towards innovation and adaptability with the Global Market. As a result, the Indian market is a centring for global direct selling industry. This is leading to globalization and thereby, exploring the layers of gradual growth of Direct Selling Industry in India. Though, Direct Selling in India is still a nascent concept, however the industry is growing at a fast pace. To understand every type of attribute related to Indian direct selling industry, this survey report is the best auxiliary for readers.

The direct selling industry has grown at 27% during 2010-11, expanding from INR 41,200 million in 2009-10 to INR 52,294 million in 2010-11. Moreover, this industry is showing diversification with respect to its existence in the four regions of India. Comparatively, the higher concentration at southern region is now diluting to northern region as well, targeting tier II and tier III cities. The urbanization and rising income is increasing the demand for variation in FMCG sector. The study on acceptability by consumers, distributors and rising entrepreneurs in this survey would help to conceptualize the attributes of direct selling industry. IDSA is always ready to enhance the positivity of direct selling industry and efface the negativity caused due to illegitimate schemes. This report is a medium to comprehend sensitivities, challenges, scope and growth.

We are grateful to PHD Chamber Secretary General, Smt. Susmita Shekhar and Research Bureau headed by Dr. SP Sharma along with his team members Malini Bhattacharya, Surbhi Sharma and Harsh Vardhan for their dedicated efforts to complete this report. I would also like to reiterate my gratitude to our Member Companies who have always been cooperative and without them we would have been unable to complete the survey year after year and reporting facts and figures. At last but not the least, my heartfelt thanks to each and every person who have provided their valuable time and inputs for the completion of this worthy and important Annual Report for direct selling industry.

Executive Summary

The Indian direct selling industry has notched up remarkable growth over the years and has been expanding its horizons in India as a rapidly emerging alternate distribution channel. The direct selling industry has grown at 27% during 2010-11, with its sales revenue¹ expanding from INR 41,200 million in 2009-10 to INR 52,294 million in 2010-11. The robust growth in the segment² has been contributed by 28% growth in the organised and 17% growth in the unorganised segments of the industry during 2010-11. The industry grew at 24% in 2009-10, 17% in 2008-09, 13% in 2007-08 and 9% in 2006-07.

Ever since the country has embarked on its ambitious economic reforms programme in 1991, the growth trajectory has undergone a quantum jump. With the increase in growth rate and per capita income, the growth of urbanization and middle class population became visible. The Indian consumer market also grew by leaps and bounds and this growing unsaturated market 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 distribution channel which is fast catching up in the country.

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 the 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 annual survey reveals that the concentration of sales revenue of direct selling industry in the Southern region has now started spreading 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 region. The survey revealed that the share of Northern region in average sales revenue moved from 12% in 2009-10 to 15% in 2010-11 and on the contrary, average sales revenue of Southern region has reduced from 48% in 2009-10 to 44% in 2010-11. In fact the North-east and Eastern markets have also caught up with their shares rising in total sales revenue rising in 2010-11. Northern region has exhibited remarkable growth at 59% while north east and east have grown robust at 48% and 37% respectively. The western and southern direct selling markets have grown at 21% and 16%, respectively.

¹ The figures used for sales revenue in the Annual Survey 2010-11 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 have not been estimated, which may be higher than the gross sales revenue, as retail margins varies between 5% to 25% in the industry.

² The terms used in the Indian NAS, the organised sector comprises enterprises for which the statistics are available from the budget documents or reports etc. On the other hand the unorganised sector refers to those enterprises whose activities or collection of data is not regulated under any legal provision or do not maintain any regular accounts. In the unorganised sector, in addition to the unincorporated proprietorships or partnership enterprises or partnership enterprises, enterprises run by cooperative societies, trust, private and limited companies are also covered.

The direct selling industry has contributed significantly to employment generation³ over the years, and the momentum has been kept up this year as well. The total distributor base⁴ of the Indian direct selling industry during 2010-11 stands at 3,962,522, marking a growth of around 24%. Out of this, 3,204,522 distributors have been employed by member companies⁵ generating a growth of 25% and 758,000 distributors have been employed by the non-member companies generating a growth of 22% employment.

Over the decade it has been noticed across nations that in the direct selling business, women have been playing an active role. Providing for flexible working structure that facilitates working from home on a part time or full time basis with minimal investment, direct selling industry has been a major steering towards women empowerment. The share of women employees have always been more than 50% in India. However, with rising cost of living especially in metro cities, Indian men are also looking up to this sector as an earning opportunity, as the consumption expenditure has swelled up over the years. The survey revealed that the employment in the sector among men has picked up rapidly who are not only looking at this sector as a part time, but a lucrative full time career option. The share of men (sales representatives) has increased from 30% in 2009-10 to 36% in 2010-11.

The survey revealed that the major source of awareness about direct selling products among consumers is friends. The word of mouth spreads from one circle of friends and acquaintances to the next related circle. However, relatives, colleagues and neighbours also play an important role in the expansion of the business. The industry is exploring new opportunities using the social media tools and a lot of networking is going on the internet.

Out of the wide variety of products sold through the organised direct selling industry, products related to wellness contributed to the highest share of sales revenue (40%) while cosmetics and personal care products (32%) were also very high in demand. Among other categories of products which have attracted the customers are home improvement (10%), home care products (8%) and household durables (8%). Food and beverages and other products capture 1% of total sales revenue in the industry.

On an average, the direct selling firms earned profits of around 21% during the last three years. The respondents were very positive about its growing profits and felt that the industry had the potential to maintain the price-cost margins above 20% in the coming years too. As per the survey, the main drivers of growth in this sector are high quality standards of products, reliability/durability, promotional schemes and good demonstrations, among others. It is interesting to note that the growth in tax collection from the direct selling member companies has jumped to 58% in 2010-11 from 11% 2009-10 and 18% in 2008-09. The share of total taxes in total sales revenue generation by the IDSA member companies have increased from 17% in 2009-10 to 21.5% in 2010-11.

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

⁴ Distributors include sales force, sales representatives and agents

⁵ Member companies refer to members of Indian Direct Selling Association

The Indian direct selling industry has contributed largely to the growth of India's MSME sector by way of outsourcing their manufacturing process to these enterprises in order to produce the products domestically. The companies owning manufacturing facilities in India and imported from abroad, produce only 30-35% of the total produce, the remaining 65-70% are produced through contract manufacturers which are MSMEs. Thus the demand for MSMEs, who are offered manufacturing contracts by the direct selling firms is rising, and so the former are upgrading their manufacturing facilities by inducting quality control mechanisms, timely delivery orders, etc. This has led to expansion in output and employment generation among them, and in creating higher growth opportunities.

Since the MSME sector has emerged as a driver of industrial expansion, direct selling has the potential to trigger the growth of the sector by its edge in marketing and distribution strategies. Thus, there is a strong complementarity between MSMEs and direct selling industries, as direct selling companies facilitate MSME sector to sell their production in untapped and unexplored markets, whereas direct selling depends largely on MSMEs for product manufacturing.

Going ahead, the growth prospects of the industry are bright which is set to take off, driven by strong consumer base and expanding markets. The size of the industry is estimated to double by 2014-15 scaling upto INR 108,436 million from the present level of INR 52,294 million in 2010-11. Though the growth of the industry vary across its different segments like organized and unorganized sectors, however, overall the industry is slated to grow at an average of more than 20% in the next four years by 2015. Further more, if the same growth momentum can be maintained in the longer term, then the market size is expected to reach around INR 216,900 million by 2019-20.

The Indian direct selling industry is well poised to occupy an important position in the international market. However, at present the direct selling is challenged by hurdles like lengthy procedures related to registrations of the company, attaining and renewing licences, stamp duty and municipality zoning restrictions. In addition to this, the regulatory framework is overlapped by rules and regulations at district level, state level and central level. Hence, decentralization of acts and rules delay regulatory mechanism with loopholes. The multi-agency clearance mechanism should be eliminated through speedy implementation of single window clearance facility to expedite the process of approvals. The government should provide incentives to the industry in terms of lowering costs of doing business which would be critical to foster employment generation vis-à-vis absorb expanding young work-force and rapid growth momentum in the sector.

Contents

S. No	Contents	Page No.
1	Expanding horizons of direct selling	10
2	Global scenario of direct selling industry	13
3	The Indian direct selling industry	16
4	Objectives of the present study	18
5	Research methodology	19
6	Producer survey analysis	20
7	Consumer survey analysis	30
8	Porter's Five Forces analysis of Indian direct selling industry	36
9	Direct selling: Wooing women	38
10	Growth opportunities	39
11	Future outlook of Indian direct selling industry	40
12	Challenges faced by direct selling industry	41
13	Conclusions	42
14	Suggestions	43

Tables and Graphs

S. No	Contents	Page No.
1	Final consumption expenditure-BRICS	8
2	Trend in India's income and expenditure	8
3	Global market size of direct selling industry	10
4	Top revenue generating segments-2010	10
5	Direct selling and conventional marketing method	11
6	The progressive cycle of direct selling industry	12
7	Global direct retail sales and sales force	13
8	Direct selling associations of various economies	14
9	Size of direct selling industry across Asian economies 2010	15
10	Top ten countries-Purchasing Power Parity 2011	15
11	Product diversification of direct selling in Asian market 2010	16
12	Direct selling industry so far	17
13	Important milestones in history of direct selling industry	17
14	Category coverage among respondents	20
15	Product coverage, promotional schemes and sectoral share	21
16	Trend in sales revenue growth of direct selling industry	21
17	Long-term trend in sales revenue growth	22
18	Share and growth of organized and unorganized players	22
19	Percentage of respondent companies across varying levels of growth	23
20	Category-wise share in total sales revenue in the organized market	23
21	Target consumer category of direct selling	25
22	Sales method adopted	25

Tables and Graphs

S. No	Contents	Page No.
23	Promotional policy adopted by direct selling companies	26
24	Trend in geographical expansion	26
25	Geographical segmentation and sales revenue of direct selling companies	27
26	Taxes paid by IDSA member companies	27
27	Growth in taxes paid vis-à-vis its share in total sales revenue	28
28	Share of direct and indirect tax of member companies	28
29	Growth of distributor's network	29
30	Per-capita revenue generation by direct selling industry	29
31	Share of men and women among sales consultants	30
32	Direct selling publicity among respondent(s)	32
33	Direct selling products purchased by respondents	32
34	Respondents' purchasing/non-purchasing direct selling products	33
35	Positive attributes for purchasing/ re-purchasing of product(s)	33
36	Product wise attributes attracting purchase/re-purchase of product(s)	34
37	Negative attributes for non-purchasing/re-purchasing of product(s)	35
38	Household income vis-à-vis purchase of direct selling products	35
39	SWOT analysis of direct selling industry	37
40	Growth perception of the direct selling companies	40
41	Market size of Indian direct selling industry	41
42	India: Statistical snapshot	45

Abbreviations

Bn	Billion
BRICS	Brazil, Russia, India, China, South Africa
CSR	Corporate Social Responsibility
DIPP	Department of Industrial Policy and Promotion
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GOI	Government of India
IDSA	Indian Direct Selling Association
INR	Indian Rupee
Mn	Million
MSME	Micro, Small and Medium Enterprises
NAS	National Accounts Statistics
NIC	National Industrial Classification
R&D	Research and Development
SEZ	Special Economic Zone
UK	United Kingdom
USA	United States of America
USD	US Dollar
USP	Unique Selling Proposition
WFDSA	World Federation of Direct Selling Associations

India: A domestic consumption driven fast moving economy

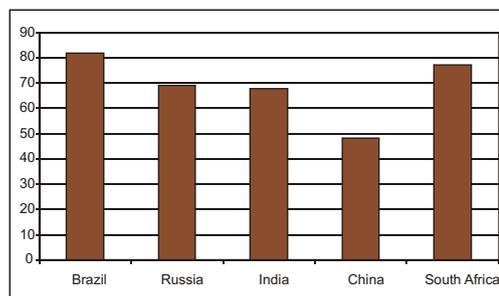
India has entered the high growth trajectory since the last many years. The economic growth rate during the last decade (2000s) was 7.3% (GDP at factor costs and constant prices) supported by robust growth in many segments in the industry and services sectors. Now, the per capita income in India doubles in very few years, domestic consumption is growing at a fast pace and consumer markets are expanding each day, savings and investment rates are now comparable to many competitive economies. A home to 1.21bn people, which is about 17.4% of the global population, India however, accounts for only 2.4% of world GDP. Hence, there exists a huge potential for achieving the higher growth trajectory and expanding production possibility frontiers.

The recent Economic Survey⁶ (2011-12) has anticipated that India is all set to enter robust growth trajectory, going forward, though it may moderate in the medium term at 6.9% in FY2011-12 and 7.6% in FY 2012-13. It is estimated to scale up to 8.6% in FY2013-14. Thus, the outlook on the growth prospects for the economy looks bright in coming times. It is anticipated that India has the potential to become the fastest moving economy in the world economic system in the next few years.

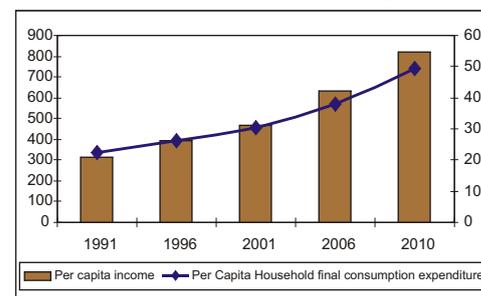
It is worth mentioning here that though India's exposure to the global economy has increased, it remains an overwhelmingly domestically-driven economy. Domestic demand in India continues to be supported by strong rural demand led by fiscal expansion, increased spending on rural employment generation programmes, robust growth in the services sector, rising incomes and changing consumption pattern of the middle income population. Going ahead, the Indian consumer market is expected to be the fifth largest⁷ by 2025 after the US, Japan, China and the UK.

The final consumption expenditure of India contributes to a sizable proportion of its GDP at 68% which is highly comparable to BRICS economies, considered as an emerging hub of consumer demand, globally. The per capita income of India and per capita household expenditure have grown hand in hand, rose steeply from US\$315 and US\$225 respectively in 1991 to US\$823 and US\$493 respectively in 2010, respectively. The rise in the middle income population with higher disposable incomes, which comprise about 11.4% of the total Indian households have driven the consumption story.

A. Final consumption expenditure-BRICS (% of GDP)



B. Trend in India's income and expenditure (US\$)



Source: PHD Research Bureau, compiled from World Bank

Note: Final consumption expenditure data pertains to 2010; Data on per-capita income and household expenditure are at 2000 prices; Left y axis indicates per-capita income and right y axis indicates per-capita household expenditure in Chart B

⁶ Economic Survey 2011-12, Ministry of Finance, Government of India

⁷ Socio-Economic Impact of direct selling: Need for a Policy Stimulus, ICRIER, 2011

The rural Indian households have been spending more on consumer goods like durables, beverages and services than five years ago, since real spending is rising in rural areas vis-à-vis increasing incomes. It has been observed that as incomes go up, the proportion of income spent on food decreases and non-food items increases. The consumer behavior pattern of rural India is also similar.

The breakup of how households spend their income, suggests a break away from mere subsistence. The average spending on food has declined⁸ to 53.6% in FY2010 from 59.4% in FY2000, while cereals accounted for only 15.6% of expenditure in FY2010, vis-à-vis 22.2% in FY2000. However, during the same period, the share of their spending on consumer durables almost doubled to 4.8% from 2.6%. In fact, it was found that even when the global recession hit urban demand in 2009, it is believed that it was the strong rural demand that rescued the economy.

Increase in purchasing power of rural masses in recent past has fuelled lot of interest in rural India. Hitherto considered a market only for low end products, today companies are seeing rural market as the new growth avenue. Several companies trying to reach out to rural consumers are exploring alternative cost effective channels. However, it may be mentioned that any macro-level strategy for these markets should focus on availability, accessibility and affordability.

Despite the significance of high consumption propensity in India, the infrastructure framework, with special reference to supply chain is inadequate vis-à-vis the demand and lagging behind many of rapidly growing economies. With this backdrop, marketing strategies like direct selling become critical for the Indian situation to increase the outreach of quality products amongst the un-reached sections and segments.

India has a strong potential for direct selling on many counts. Firstly, from the buyer's side, this medium serves as an important vehicle serving better market penetration in rural areas and Tier II and Tier III cities⁹, which lack access to retail stores. Secondly, India suffers from the perennial problem of underemployment given its large pool of semi-skilled workforce available at competitive prices. Thus from the seller's perspective also, direct selling provides for self employment and micro entrepreneurship opportunities for some and additional income opportunity for others. So from both sides, direct selling can emerge as a crucial industry segment in India.

Today, direct selling is one of the fastest growing industries in India which is slated to post robust growth in coming years. Product categories include items ranging from health and personal care to kitchenware, education, home care, insurance, and natural products. According to industry estimates, there are around 407 direct selling companies in India comprising 157 organized and 250 unorganized direct selling companies¹⁰. Many Indian and multinational direct sellers have started operations in India through joint ventures or wholly-owned subsidiaries.

⁸ Household Consumer Expenditure Survey, 2009-10, NSSO, Govt of India.

⁹ 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.

¹⁰ The Indian Direct Selling Industry, Annual Survey Findings: 2009-10, Ernst & Young

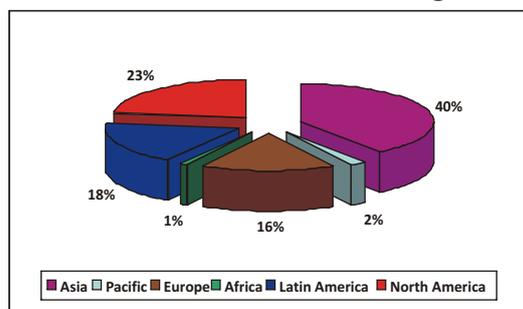
The value perception of customers is also changing with customers increasingly looking for quality products that add value and are willing to pay a premium for them. Future growth in direct selling is expected to continue being driven by the emerging markets in rural areas, Tier II and Tier III cities. With increasing income levels, these emerging markets provide a substantial base of households for direct selling companies to target and thereby drive future growth. On the demand side, an increase in consumption of consumer goods of the average Indian, coupled with the rising awareness of health and wellness among Indian households, is a key growth driver. Increasing capital investment on the supply side, with companies venturing into multiple product categories is also set to propel the rapid expansion of this industry, going forward.

1. Expanding horizons of direct selling

As a worldwide industry, direct selling exists in more than 150 countries with retail sales of USD 132,222 million in 2010 and around 87 million salespersons engaged in selling 10 categories of products. Nearly 36% of the industry revenue¹¹ is generated by sale of cosmetics and personal care products. It is followed by wellness/healthcare (22%), household goods (17%), clothing & accessories (8%) and book, toys, stationary and financial services at 3%.

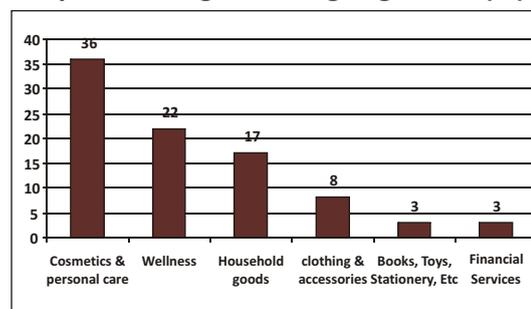
It has been found that 40% of market share of direct selling industries is held by Asian markets, followed by North America (23%), Latin America (18%) and Europe (16%). A meagre share is contributed by Pacific region including Australia and New Zealand with 2% and Africa with 1%.

Global market size of direct selling industry



Source: PHD Research Bureau, compiled from WFDSA
Note: Data pertains to 2010

Top revenue generating segments (%)



Source: PHD Research Bureau, compiled from WFDSA
Note: Data pertains to 2010

1.1 Emergence of direct selling

The traditional method of selling includes different sales channels involving number of middlemen at different stages which accelerated costs. These costs are transferred to the customer, which in turn leads to a burden to the consumer. Therefore, some suppliers, in order to reduce profit stripping in several stages by the intermediate vendors, start to find their own personnel for the product sale, or try to use technology to assist product sale. The new generation of selling channels such as direct selling and internet shopping are thus generated.

¹¹ World Federation of Direct Selling Associations, Washington, DC

However, direct selling uses a hierarchical network involving multiple stakeholders including users, providers, sales consultants/agents, government and media. This mode of selling is effective for products and customers who need demonstrations or trial packages before purchase.

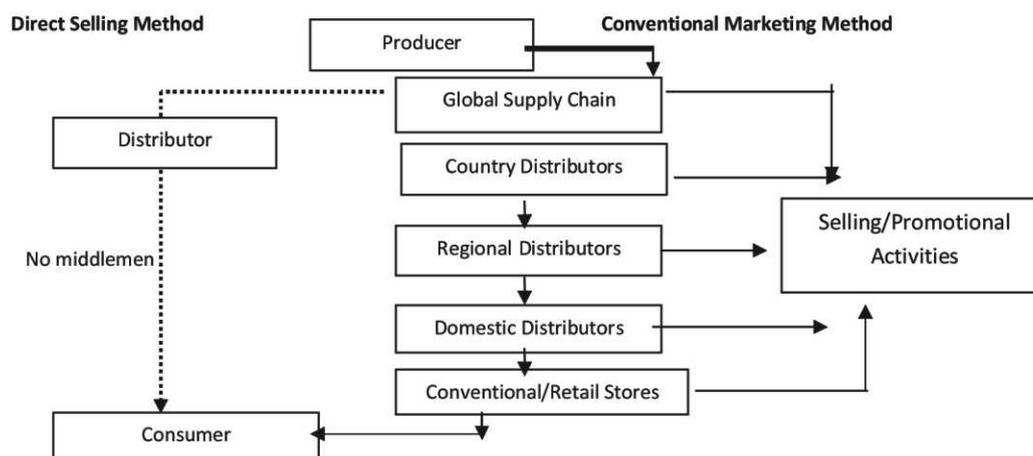
Companies venture into direct selling because it is effective and economic in respect of the products. It helps them save channel costs and a good amount of advertising costs. It bypasses the role of middlemen and helps to remain close to the consumers, service them better and get direct feedback.

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 means the marketing of consumer products/services directly to the consumers generally in their homes or the homes of others, at their workplace and other places away from permanent retail locations, usually through explanation or demonstration of the products by a direct seller”

- Indian Direct Selling Association (IDSA)

1.2 Direct selling and conventional marketing method



Source: PHD Research Bureau

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. Sales are usually done via home parties, workplaces, street corner carts and door-to-door. Direct selling representatives are not employees of the company they represent, rather, they are independent contractors who market and sell the company's products/services which they represent. They earn direct sales commissions for their personal production.

1.3 The progressive cycle of direct selling

Direct selling is a 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. Direct selling being an up-coming industry segment in India, needs manpower to expand and grow. As the industry's growth depends upon word-of-mouth publicity, there is a potential to generate self-employment for large number of people from different segments of society. In addition to this, the industry offers a flexible work schedule, training and experience which help vendors to develop business skills and become more knowledgeable in money management. The industry offers tremendous self employment and micro-entrepreneurship opportunities thereby aiding to rise in level of income, purchasing power and serving to boost the standard of living. The rise in income levels generates demand in the economy and thereby provides impetus for the higher level of production. Thus, to meet the rising demand, it is essential to escalate the level of production, which can in turn only be achieved by hiring more workers and contractors, and involving more ancillary industries, such as packaging and shipping. With rapid acceleration of the industry sector as a whole, India is considered to be a more versatile sourcing hub for distribution to other countries because of its strategic location, which further expands and pushes the Indian Direct Selling Industry to higher scale and thus there is an urgent need to improve the existing technology and other related facilities, so to enhance the scale of production.

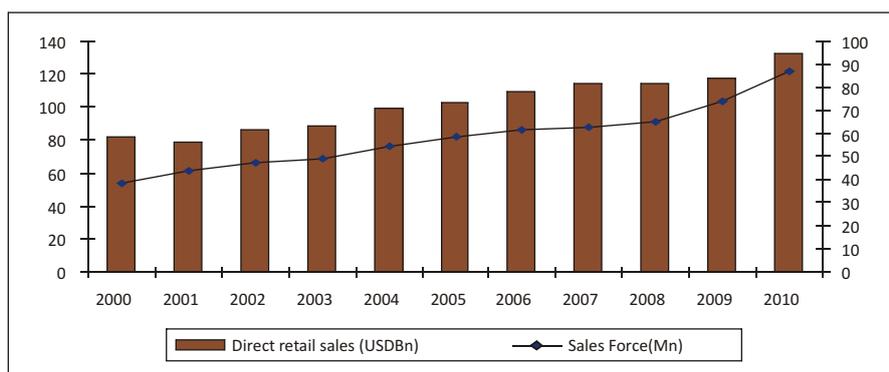


Source: PHD Research Bureau

2. Global scenario of direct selling industry

The global direct selling industry is witnessing growth at 12.51% with revenue generation¹² of around USD 132 billion in 2010 as compared to around USD 117.5 billion in 2009. The industry has about 87 million sales persons, with 76% of females being a part of the industry and 24% of males. In terms of sales strategy, 76% of sales are conducted by person-to-person interaction and 18% through party plans. While mature markets of USA and Europe are expanding slowly with new products and new sales channels and incremental growth, new markets such as those in Asia and Eastern Europe provide big potential due to expanding work force.

Global direct retail sales and sales force since 2000



Source: PHD Research Bureau, compiled from WFDSA

Note: Left Y axis indicates Direct Retail Sales (USD Bn) and Right Y axis indicates Sales force (Mn)

2.1 World direct selling association(s)

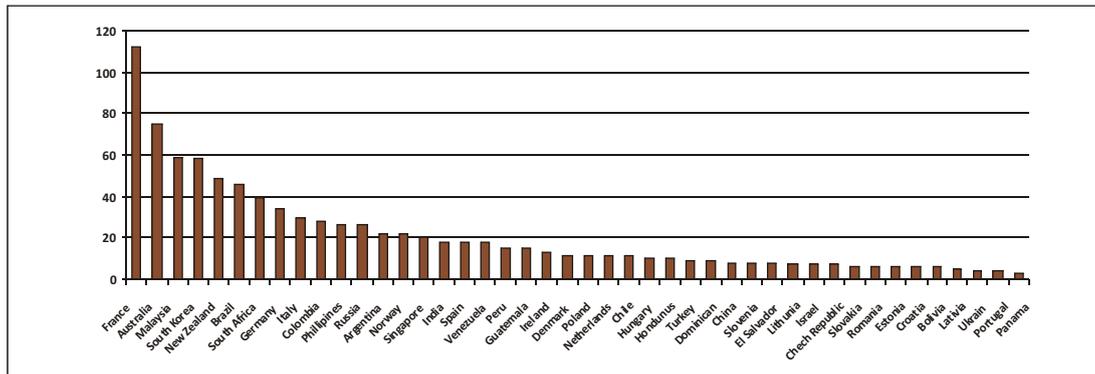
Direct selling at global level is represented by World Federation of Direct Selling Associations (WFDSA), founded in 1978, which acts as a federation of national direct selling associations. The federation pursues the highest level of ethical conduct in the global marketplace, fosters advocacy by partnering 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 federation¹³. Among the 44 nation's direct selling association, France tops the chart with 112 numbers of listed members while Panama with 3 members is at the bottom. India ranks at 16th position with 18 members listed on its direct selling association.

¹² World Federation of Direct Selling Associations, Washington, DC

¹³ Ibid

Direct selling associations of various economies



Source: PHD Research Bureau

2.2 The Asian direct selling market

Asia with more than 4 billion population is considered to be a viable marketing hub by the global players for various economic activities. Many of the countries in the region offer the most business friendly government in the world including Japan, Korea, Thailand, Singapore and Malaysia among others. Most of these economies have exhibited considerable financial stability during the recent years of global economic uncertainty. Blessed with huge reserves of highly educated and skilled manpower, Asia has the potential to become the manufacturing hub of the world.

2.3 Why head towards Asian markets?

Asia has been the fastest growing region of the world for several decades. The speed and extent of Asia's economic and social progress has been inspiring and these emerging economies are now advancing at an impressive pace as major global economic powers. Today, Asia accounts for more than a quarter of global output. In developing Asia, per capita incomes grew at around 9% annually over the last decade, reaching nearly USD 5,000 in Purchasing Power Parity (PPP)¹⁴ terms in 2010 from about USD 2,000 in 2000. Investment rates reached record highs, averaging 35% of GDP over the past decade.

2.4 Market size of Asia's direct selling industry

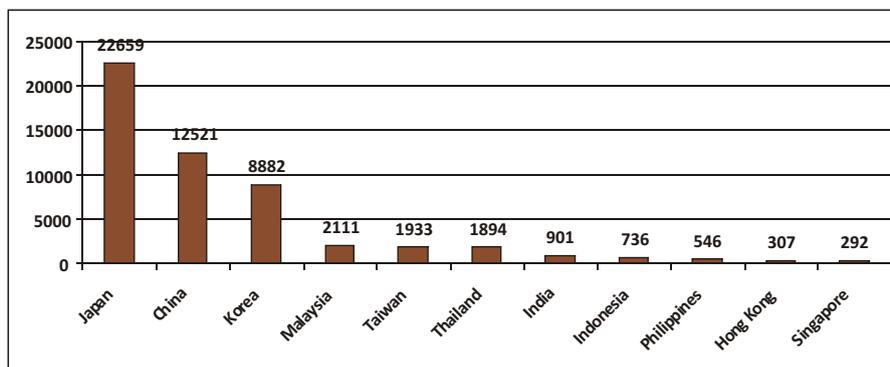
Direct selling is a relatively new industrial sector for Asia, capturing 40% of global market¹⁵ and is growing at a fast pace. Companies are spreading and penetrating their operations from Tier I to smaller cities and are even trying to explore rural markets of this continent. Among the 11 Asian countries, market size¹⁶ of Japanese direct selling industry stood with a major chunk of 40.7% at USD 22,659 million during 2010. It is followed by China (USD 12,521 million), Korea (USD 8,882 million) and Malaysia (USD 2,111 million). India had a market size of USD 901 million in 2010.

¹⁴ Purchasing Power Parity 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.

¹⁵ World Federation of Direct Selling Associations, Washington, DC

¹⁶ Ibid

Size of direct selling industry across Asian economies (USD million) 2010

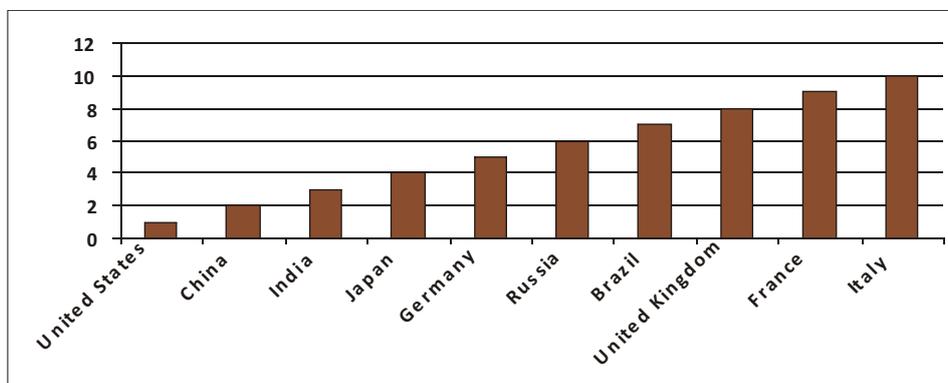


Source: PHD Research Bureau, compiled from WFDSA

Note: Comparable data for the above countries are available for 2010

In terms of Purchasing Power Parity (PPP), out of top ten countries, three countries are from Asian region. In the Asian region, China tops the charts, followed by India and Japan occupying 2nd and 3rd positions respectively¹⁷.

Top ten countries-Purchasing Power Parity 2011



Source: PHD Research Bureau, compiled from International Monetary Fund

Note: Comparable data for the above countries are available for 2011

Among the Asian economies, Japan dominates the direct selling market with a market size of USD 22,886 million, followed by Korea (USD 8,171 million), Malaysia (USD 2,153 million), Taiwan (USD 1,952 million) and Thailand (USD 1,837 million). The size of India's direct selling market is USD 901 million, while Indonesia, Singapore and Hong Kong have market sizes of USD 714 million, USD 318 million and USD 307 million, respectively.

¹⁷ International Monetary Fund, Washington, DC

Product diversification of direct selling in Asian market 2010

Country	Product category (in USD million)								
	Wellness/ Healthcare	Cosmetics and Personal care	Household Goods	Others	Books, Toys, stationery	Clothing & Accessories	Home Improvement	Foodstuff & Beverages	Total
Japan	6345	6571	4305	2039	906	1360	1360	0	22886
Korea	3375	2576	711	622	888	0	0	0	8171
Malaysia	739	401	422	190	42	190	42	127	2153
Taiwan	1140	309	213	135	19	97	0	39	1952
Thailand	739	739	265	19	19	0	0	57	1837
India	423	279	63	36	0	0	90	9	901
Indonesia	140	74	44	29	0	88	0	339	714
Singapore	175	64	47	29	0	0	0	3	318
Hong Kong	209	74	15	0	6	0	0	3	307
Total	13285	11087	6085	3100	1881	1735	1492	576	39240
Share in Asia's market	34	28	16	8	5	4	4	1	100

Source: PHD Research Bureau

Note: Comparable data for the above countries are available for 2010

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

Among the product categories, wellness products captured the highest market share in Asia with 34% of the total, while cosmetics and personal care products and household goods capture 28% and 16% respectively. Other products, stationary, home improvement, clothing and foodstuffs capture 8%, 5%, 4%, 4% and 1% respectively.

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

3. The Indian direct selling industry

The Indian direct selling industry, although in nascent stages, with 16 years of establishment¹⁸, ranks at 23rd position¹⁹ in revenue generation with USD 901 million and at 11th position¹⁹ in terms of sales agents with the strength of more than 30 lakh persons among 59 nations.

The total sales revenue generated by the direct selling industry stands at USD 1149 million with a total workforce of more than 39 lakh. Direct selling industry contributes²⁰ around 36% in the revenue of non store retail sector²¹ in India. When compared with the organized retail sector, the direct selling industry stands at around 4.4%. The industry contributed 0.07% to the GDP during 2010-11.

¹⁸ Indian Direct Selling Association, New Delhi

¹⁹ World Federation of Direct Selling Associations, Washington, DC

²⁰ The figures used for sales revenue in the Annual Survey 2010-11 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. So the share in terms of retail size may be higher.

²¹ The total organized retail market size in India is estimated at USD26 billion while non-store retail market is estimated at USD 3.2 billion in 2011.

Direct selling industry so far: 2010-11

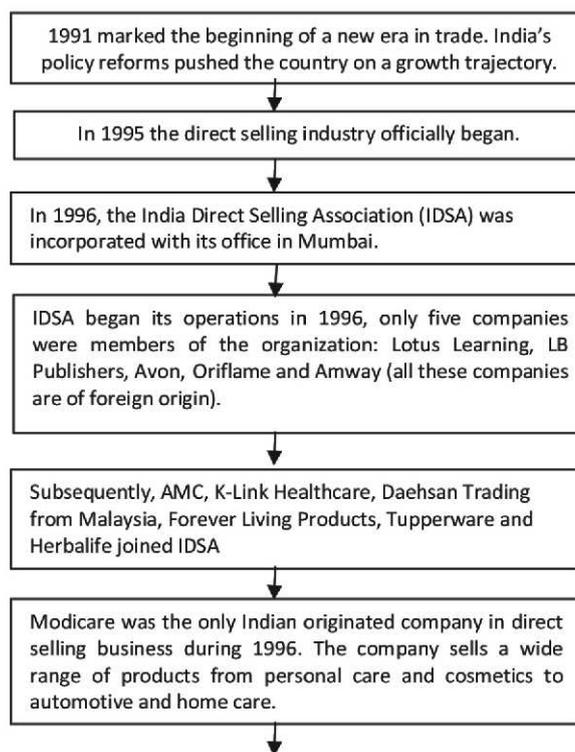
Sales revenue (USD million)	1149
Growth of sales revenue (%)	27
Work force	3962522
Share in non store retail (%)	35.8
Ratio with organized retail sector (%)	4.41
Share in GDP (%)	0.07

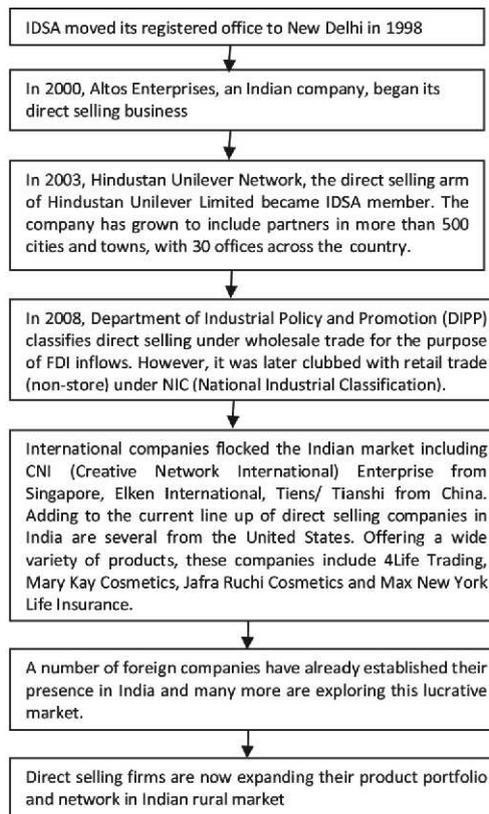
Source: PHD Research Bureau, compiled from various sources.

The positive economic condition, wide consumer base with 58% of population in age bracket of 15-58 years, rising income levels, growing demand for various product categories and increase in geographical penetration and distribution, Indian direct selling industry is ready to explode. India is rapidly integrating with the world economy and is supported by a strong legal system and conducive business environment. Hence the sector is attracting growing number of companies from various countries.

3.1 Important milestones in history of direct selling industry

In India, the direct selling industry came into existence in early 1990s soon after the country opened up to the global market. However, the industry segment gained momentum with the establishment of the Indian Direct Selling Association in 1996. A look at the journey of direct selling industry throws light on numerous milestones which had significant impact on shaping its growth story.





The Indian Direct Selling Association (IDSA) in India works towards a policy framework for direct selling with the government and stakeholders, encourages and maintains an environment where members can operate independently, ethically and progressively and enhance lives by sharing and protecting the direct selling opportunity for personal, professional and financial development. Formed in 1996, today, the association has 18 members including leading Indian and international organizations and over a million independent salespeople. It 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.

4. Objectives of the present study

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

- a. To study the emerging trend in sales revenue in terms of volume and growth in the direct selling industry of India
- b. To understand the extent of geographical penetration and product diversification of the direct selling industry of India.
- c. To know the production, profitability and marketing strategies from the producers' perspective
- d. To analyse the socio-economic impact of direct selling on consumers

- e. To analyse the critical success factors and sensitivities of the direct selling industry
- f. To assess the growth outlook, going forward

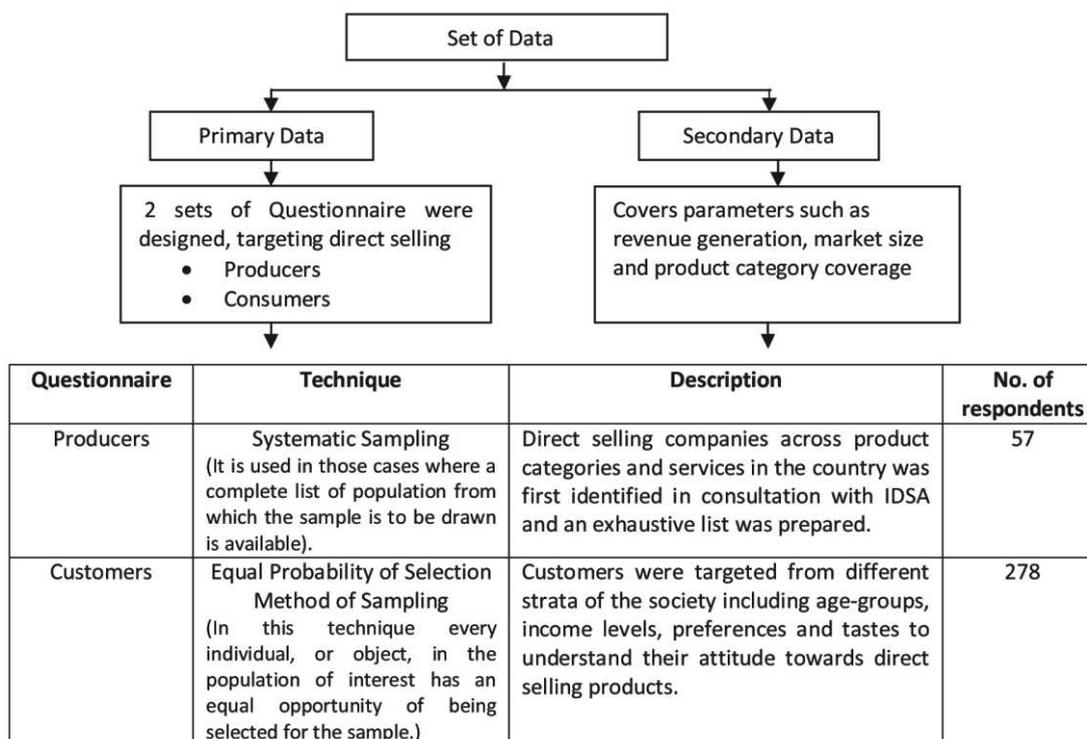
5. Research Methodology

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 2010-11 were initiated in December 2010 and extended for a period of three months. These activities ranged from preparation of questionnaires, data retrieval, verification of the survey findings, and input from top management personnel, experts and customers of the direct selling industry.

The study is based on primary and secondary sources of data and makes use of simple statistical tools such as averages and percentages. The qualitative inferences have been derived on the basis of unanimity of the views received from respondents on various issues addressed in the questionnaire.

5.1 Data Set

The report takes into consideration both primary and secondary data sources.



²² 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.

6. Producer survey analysis

In the presence of the diverse consumer base in the country, the direct selling industry is fast catching up as an alternative channel of distribution along with the conventional sales/marketing formats like malls, retail shops, conventional stores, kiranas, grocery stores, etc. The industry has been growing at a rapid pace and today there are around 407 direct selling companies in India comprising 157 organized and 250 unorganized direct selling companies²³. However, it may be mentioned that the direct selling companies are predominantly unorganised and the information on such firms is limited.

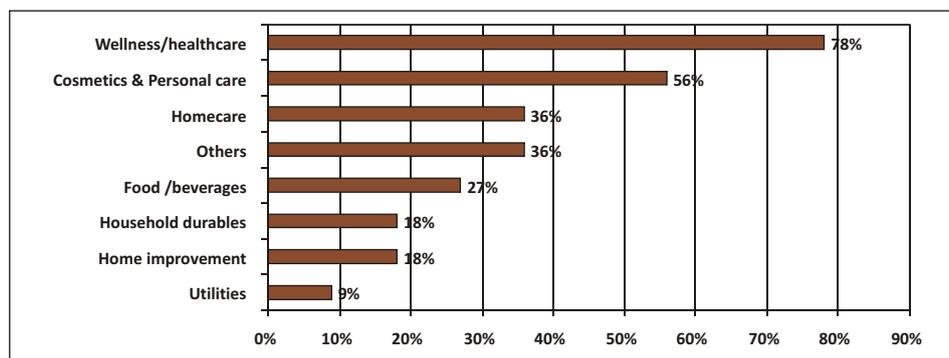
6.1 Sample Selection

The producers/manufactures of direct selling products were surveyed to analyse the overall situation of the industry from the perspective of revenue generation, market penetration, sales method, employment generation, future scope and potentiality. PHD Research Bureau has received in total 57 responses from direct selling producers/companies including both IDSIA members and non IDSIA members. Out of the total responses, 18 were members of IDSIA while the remaining 39 were non-members including firms in organised and unorganised sector. However, the limitation of the survey lies at the fact that it is often difficult to collect information regarding firms operating in the unorganised sector. The responses received have been put together and inferences on the aggregation have been represented in terms of averages and percentages.

6.2 Characteristics of the sample

The survey has taken into consideration direct selling companies which manufacture 8 broad product category(s). The highest share of the respondent companies belonged to health and wellness at 78%, followed by cosmetics and personal care at 56%, homecare and others at 36% each, food and beverages at 27%, household durables and home improvement at 18% each and utilities at 9%.

Category coverage among respondents



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

Note: Figures include multi-category production companies

²³ Indian Direct Selling Industry, Annual Survey Findings: 2009-10, Ernst & Young

Out of the total respondent companies, nearly 45% are engaged in producing only one category of products, while the rest are engaged into diversified product manufacturing. Among the multi category producing respondents, 17% produce/manufacture three categories of products, whereas 33% are engaged in manufacture of four categories of products and around 50% are engaged in more than four categories of products.

Product coverage, promotional schemes and sectoral share

Product Category	Description (It includes)	Method for promotion	Share of respondent companies in sample (in %)
Wellness/healthcare	Weight management supplements; meal replacement bars & drinks; nutritional supplements & juices; diet plans; aromatherapy; magnets; sports/energy & body -building supplements, bars, protein drinks; fitness & other related products	Person to Person Selling, Demonstration, Explanation & Consultancy	78
Cosmetics & Personal care	Clothing, lingerie, sleepwear, shoes, fashion jewellery, fashion watches, accessories & personal items	Person to Person Selling, Demonstration, Explanation & Consultancy	56
Homecare	Household cleaning products, auto care, animal/pet care	Person to Person Selling, Demonstration, Explanation & Consultancy	36
Household durables	Cookware, cutlery, tableware, housewares, gift & decorative accessories, art/framing, gardening items, furniture, home appliances, air & water treatment systems & filters, vacuum cleaners, bedding & linens	Person to Person Selling, Demonstration, Explanation & Consultancy	18
Food /beverages	Snacks and refreshments	Person to Person Selling, Demonstration, Explanation & Consultancy	27
Home improvement	Fitted kitchens, window frames, refurbishing works, doors, security systems, heating systems and other related products	Person to Person Selling, Demonstration, Explanation & Consultancy	18
Utilities	Telecommunications including telephones & internet services, energy, water	Person to Person Selling, Demonstration, Explanation & Consultancy	9
Others	Agricultural products, auto equipment, educational products	Person to Person Selling, Demonstration, Explanation & Consultancy	36

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

Note: Figures include multi-category production companies

6.3 Sales Revenue growth of direct selling industry

The sales revenue²⁴ has scaled remarkable growth over the years, growing from INR 33,226 million in 2008-09 to INR 41,200 million in 2009-10 and further to INR 52,294 million in 2010-11. The total sales revenue by the direct selling firms during 2010-11 can be split up into total sales revenue of INR 47,953.6 million by the companies belonging to the organized sector and INR 4,340.4 million by the unorganized sector.

Trend in sales revenue growth of direct selling industry

Category	2008-09	2009-10	YOY growth (%)	2010-11	YOY growth (%)
Member(INR Million)	18800	23500	25	30080	28
Member (US\$ Million)	409.5	495.78	21.1	661.1	33.3
Non-Member (INR Million)	14426	17700	22.6	22214	25.5
Non-Member (US\$ Million)	314.29	373.41	18.8	488.21	30.7
Total(INR Million)	33226	41200	24	52294	26.9
Total (US\$ Million)	723.87	901	20.07	1149.3	32.2
Organised sector (INR Million)	30036.3	37492	24.8	47953.6	27.9
Organised sector (US\$ Million)	654.3	790.97	20.8	1053.9	33.2
Unorganised sector (INR Million)	3189.7	3708	16.2	4340.4	17.1
Unorganised sector (US\$ Million)	69.4	78.2	12.6	95.4	21.9

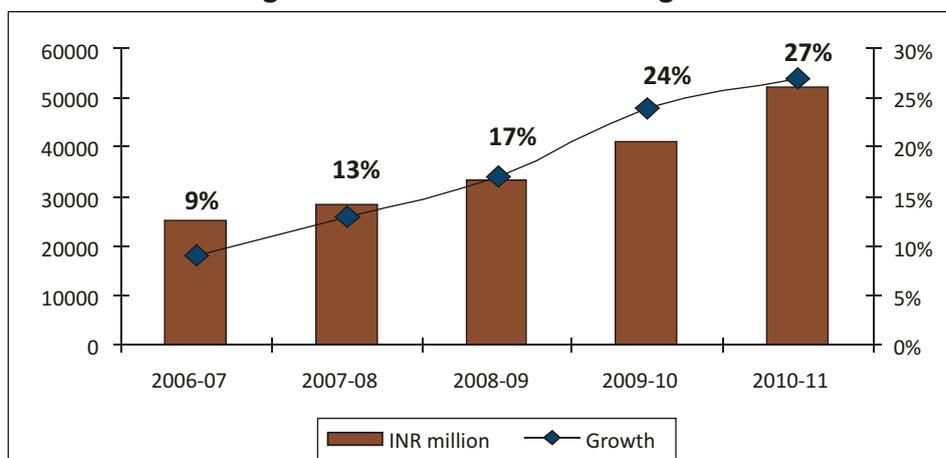
Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

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

Note: The sales revenue numbers have been arrived through inputs received from the respondents from the organised and unorganised sector. However, 15% 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.

The rate of growth of sales revenue in the direct selling industry has been robust and has increased at a steady pace. It was found that the industry sales revenue grew²⁵ at 9% during 2006-07, at 13% during 2007-08, at 17% during 2008-09, at 24% during 2009-10 and at around 27% in 2010-11.

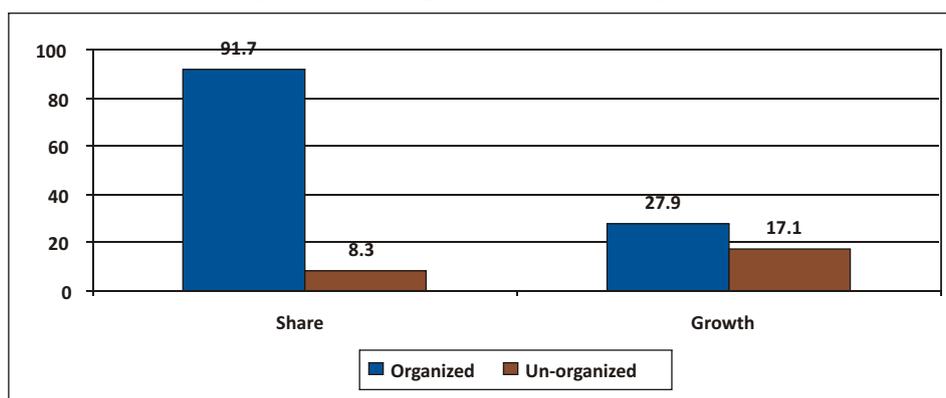
Long term trend in sales revenue growth



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11
Note: Left y axis indicates sales revenue in INR million and right y axis indicates growth rate

As mentioned above, the direct selling industry comprises companies which are operating under the organized market structure and companies which are operating under the unorganized market. It was found that during 2010-11, the companies under organized sector contributed to 91.70% to the total sales revenue of direct selling industry marking a growth of 27.9%. On the other hand, companies in the unorganized market contributed to 8.30% of total sales revenue of direct selling industry growing at 17.1%.

Share and growth of organized and unorganized players



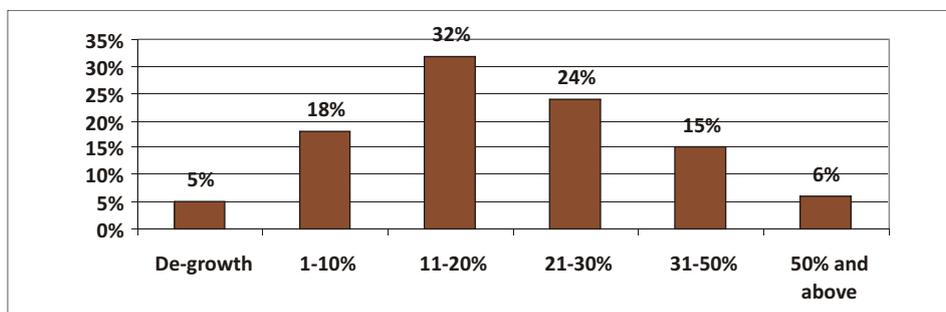
Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

²⁴ The figures used for sales revenue in the Annual Survey 2010-11 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 have not been estimated, which may be higher than the gross sales revenue, as retail margins varies between 5% to 25% in the industry.

²⁵ IDSIA Annual Surveys since FY2006

During 2010-11, around 77% of the direct selling companies have grown at double digit rates contributed by a 32% of them growing at 11-20%, 24% of them growing at 21-30%, 15% of them growing at 31-50% and 6% growing at 50% and above. However, 5% of the companies have decelerated while 18% companies have grown at 1-10%.

Percentage of respondent companies across varying levels of growth

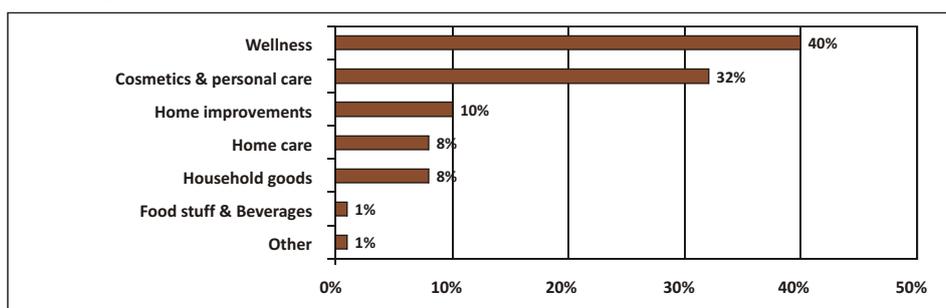


Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

6.4 Product composition

Products related to wellness contributed to a lion's share in the total sales revenue of the organised direct selling industry, by a share of 40%, whereas, cosmetics and personal care and homecare improvements products have captured 32% and 10% shares respectively. This is followed by 8% share each of home care and household goods and 1% share each of foodstuffs and beverages and products belonging to other categories.

Category-wise share in total sales revenue in the organized market



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

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

6.5 Product expansion

A number of new companies are entering the country and expanding their portfolio of products which include expanding production as well as diversification of existing products. The survey revealed that, out of the total range and category of products, 28% were launched in 2010-11 as compared to 21% in 2009-10.

6.6 Manufacturing base of the direct selling companies

Amongst the direct selling companies, most of them are of foreign origin. However, manufacturing contracts are given to various small enterprises that deliver order of these direct selling firms. The companies owning manufacturing facilities produce only 30-35% of the total produce, the remaining 65-70% are produced through contract manufacturers which are MSMEs. It has been found that the demand for MSMEs who are offered manufacturing contracts by the direct selling firms is rising, and so are the former are upgrading their manufacturing facilities with quality control mechanism, timely delivery orders etc.

6.7 Quality management and R&D facility

The hallmark of direct selling companies is the time, effort and resources spent in providing a product of highest quality. The survey of respondent companies has revealed that 96% of the firms are committed in maintaining global quality standards for products they manufacture. These firms hold management certification including GMP, HACCP, Six Sigma and ISO 9001:2008. Thus, products endorsed by genuine direct selling firms are rated as five star products as they comply with regulatory requirements without hiding facts and claims.

Direct selling companies' R&D activities include testing, developing, processing input materials, pest control, safety testing, product development, packaging development, right equipment selection, physical, chemical, instrumentation and microbiological testing facilities. In India, almost all the firms surveyed has set-up contract manufacturing facilities that help them in upgrading quality standards and ensuring quick market delivery of the products efficiently.

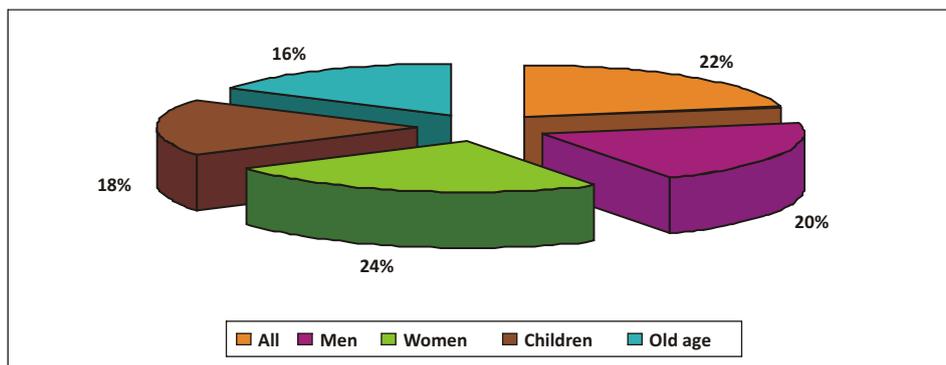
6.8 Corporate Social Responsibility (CSR) activity

Corporate Social Responsibility (CSR) has become a world wide concept. Firms operating in any sector adhere to this practice not only for commercial interest but to pay back the society by taking measures like environment protection, health care, promoting girl child, sponsoring sport activities, child education, poverty alleviation, maintenance of public places etc. In 2010-11, around 98% of the respondent firms have taken up various CSR activities. According to their scale of operations, these firms have spent in the range of 50 to 12,000 man hours/ quarter on various CSR activities.

6.9 Population segmentation in manufacturing

During the survey it was found that among the 57 direct selling firms, nearly 24% of respondent companies manufacture or design products that are utilized by women, including cosmetics, kitchenware, home care, skin care, hair care, jewellery among others. Survey findings revealed that around 22% of companies that manufacture products which fulfil the requirement of all sections of society including men, women, children, as well as old age members, while 20% companies manufacture products for men, 18% of products cater to children while 16% cater to old age people.

Target consumer category of direct selling industry



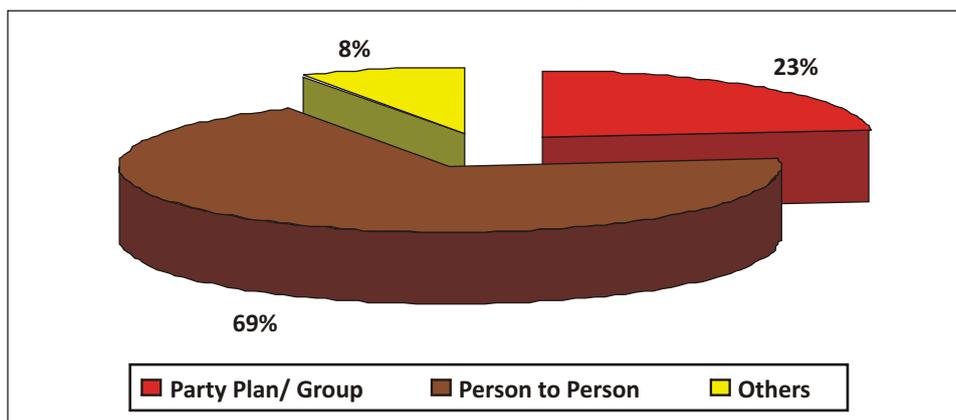
Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

6.10 Sales method and promotional policy of direct selling companies

It has been observed that through, person-person method was most predominant method of sales over the past many years; other methods have gained importance in recent times. The year 2010-11 was a year of steep price rise. The point to point (year-on-year) inflation was around 9-10% in 2010-11 as compared to 4-5% in 2009-10. Transportation cost during the year also went high as petroleum inflation touched 17% during 2010-11 as compared with (-) 7.5% in 2009-10. So the cost of doing business rose steeply and direct selling agents started adopting cost effective methods like hosting social events/ party plans so as to reach out to a larger target consumer base. Direct selling through social networking and internet has also risen significantly in recent times.

Survey revealed that nearly 69% of the respondent firms use 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 and food/beverages. On the other hand, nearly 23% of the respondent companies opted for party plan sales method while 8% adopted other sales methods like social networking and internet.

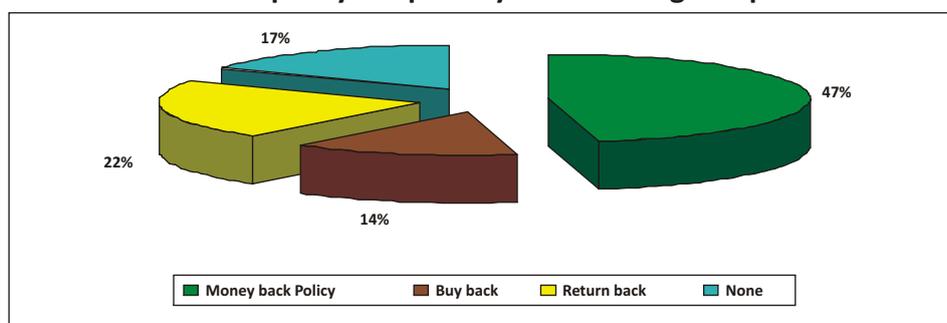
Sales method adopted



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

Backed by extensive R&D facilities and high quality standards, direct selling firms offer platform for promotional policies to their customers. As per the survey, 47% of the surveyed firms offer money back policy on their products to the customers, even if the product is used. The second most popular policy adopted by these companies is return back scheme, as 22% of the respondent firms give this incentive to its customers while 14% respondents adopted buy-back promotional scheme. However, 17% of the survey firms do not provide any promotional schemes to their customers.

Promotional policy adopted by direct selling companies



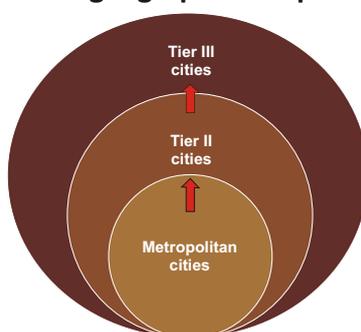
Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

6.11 Geographical segmentation & revenue generation strategies by direct selling companies

Being predominantly of foreign origin, the organised direct selling companies in India have been found to enter the market first through customers living in metropolitan cities. These companies found sound infrastructural base and networking opportunities in metro cities which facilitated in starting up and expanding the businesses. However, it has been observed that these companies gradually explored further demand opportunities in other regions, to increase their consumer base. They have been found to spread base of their business to peripheral tier II and in tier III cities to reach out to a wider market.

The survey has revealed that 73% of respondent companies have expanded their business in 2010-11 in various cities and towns. More than 350 cities and towns have been added by respondent companies during the fiscal 2010-11. On the other hand remaining 27% of the respondent firms did not expand their business in 2010-11.

Trend in geographical expansion



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

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 region.

The survey revealed that the share of Northern region in sales revenue moved from 12% in 2009-10 to 15% in 2010-11 and on the contrary, sales revenue of Southern region has reduced from 48% in 2009-10 to 44% in 2010-11. Northern region has exhibited remarkable growth at 59% while north east and east have grown robust at 48% and 37% respectively. The western and southern direct selling markets have grown at 21% and 16%, respectively.

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

Region	% share in sales revenue (2009-10)	% share in sales revenue (2010-11)
North	12	15 (59%)
East	13	14 (37%)
North East	6	7 (48%)
West	21	20 (21%)
South	48	44 (16%)

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

Note: Figures in the parenthesis indicate regional growth rates during 2010-11(Y-O-Y)

6.12 Contribution to exchequers

The organised direct selling firms²⁶ are liable to pay to the exchequers from the revenue they generate during the fiscal. 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. It is interesting to note that 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 17% in 2009-10 to 21.5% in 2010-11.

Taxes paid by IDSA member companies

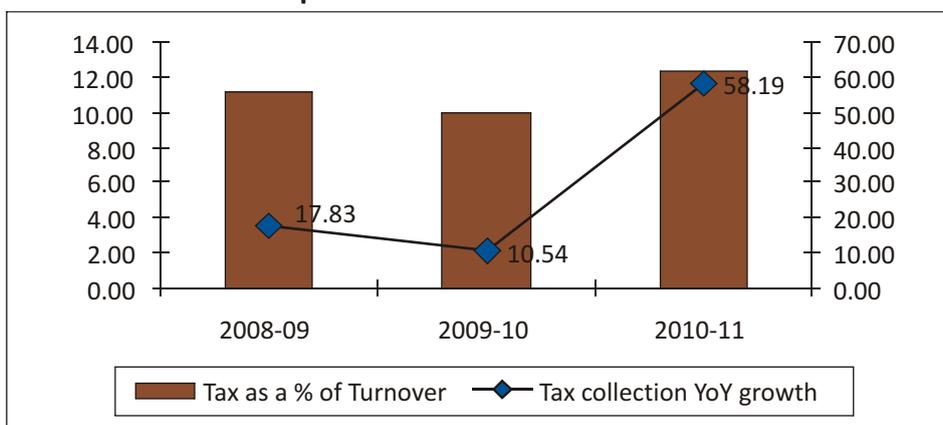
Year	Taxes paid (% share in total sales revenue generation by member companies)
2008-09	20
2009-10	17
2010-11	21.5

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

²⁶ The taxes paid have been estimated for the direct selling companies in organized sector and IDSA members only. However, out of the respondents in the organised sector, 15% of them did not provide information on taxes paid. So the data was driven on the basis of available information. It may be mentioned that the estimated taxes scenario also includes taxes paid through outsourced manufacturers, logistics providers and packers involved in the supply chain

The growth in tax paid by the direct selling member companies has jumped to about 58% in 2010-11 from around 11% 2009-10 and about 18% in 2008-09. The share of taxes paid by the members companies in total sales revenue of the industry is estimated at an average of around 11% in last three years.

Growth in taxes paid vis-à-vis its share in total sales revenue

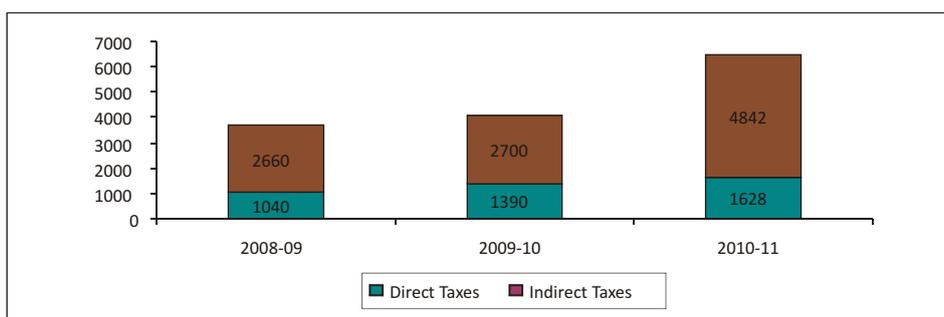


Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

Note: Left Y axis indicates tax as percentage of sales revenue, Right Y axis indicates tax collection YoY growth

The total tax paid by member companies amounts to INR 6470 million as compared to INR 4090 million in 2009-10 and INR 3700 million in 2008-09. The direct taxes have increased from INR 1040 million in 2008-09 to INR 1390 million in 2009-10 and further to INR 1628 million in 2010-11, while indirect taxes have scaled up from INR 2660 million in 2008-09 to INR 2700 million in 2009-10 and further to INR 4842 million in 2010-11.

Share of direct and indirect tax of member companies (INR million)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

6.13 Employment generation

Becoming a direct sales person requires little or no capital, as no shop or staffs are needed. There are no rentals, payrolls or large inventories. The total distributor base²⁷ of the Indian direct selling industry during

²⁷ Distributors include sales force, sales representatives and agents

2010-11 stands at 3,962,522 out of which 3,204,522 distributors are employed²⁸ by member companies, whereas, 758,000 distributors are employed in the non-member companies. The growth of total distributor's network stands at 24.35% in 2010-11 over 2009-10, contributed by 24.91% growth among members and 22.06% growth among non-members. The robust growth is attributed to factors such as entry of new firms, expansion of business to different cities and more youth joining the force.

Growth of distributor's network in 2010-11

Category	2009-10	2010-11	Growth (%) Y-O-Y 2010-11
Member	2565418	3204522	24.91
Non-member	621000	758000	22.06
Total	3186418	3962522	24.35

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

Note: Around 15% 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.

Per capita revenue generation inches up

The enhanced employment in the sector may be attributed to the inclination of people towards additional earning opportunities in the wake of enhanced consumption expenditure. Besides this, although, for various reasons direct selling industry has been a major steering in the direction of women empowerment, with rising cost of living especially in metro cities, Indian men are also looking up to this sector as a lucrative full time earning opportunity in recent times. However, the significant development is that the per-capita revenue generation has increased from INR 12956 in 2009-10 to INR 13206 in 2010-11 indicating a rise in productivity of sale force.

Per-capita revenue generation by direct selling industry

Year	Sales revenue (INR million)	Total sales force	Per - capita revenue generation (INR)
2009-10	41200	3186418	12956
2010-11	52294	3962522	13206

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

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

6.14 Share of men and women among sales consultants

Over the decade it has been noticed across nations that in the direct selling business, women have been playing an active role. The share of women employees have always been more than 50%. However, with rising cost of living especially in metro cities, Indian men are looking up to this sector as a save side earning opportunity, as the consumption basket of the family have swelled up over the years. Among the males, it has been noticed that students are fast picking up, as they join it not as a career option, but only to earn extra money over short or medium term. The share of men (sales representatives) has increased from 30% in 2009-10 to 36% in 2010-11.

²⁸ Employment in direct selling industry is defined as self employment and micro-entrepreneurship opportunities

Share of men and women among sales consultants

Sales Consultant Network- Gender wise split (in %)		
Year	Men	Women
2008-09	33	67
2009-10	30	70
2010-11	36	64

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

6.15 Attrition rate

The industry witness high attrition rate, as many individuals join it not as a career option, but only to earn extra money over short to medium term. The factors that have been observed for rising attrition rate are such as, sales agents are at times unable to target the right customers making almost no sales, sales agent change direct selling company and sales representatives are unable to devote time to the business. The survey revealed that during the fiscal 2010-11, recruited sales force as a percentage of total sale force is around 31% and attrition amongst sale force as a percentage of total sales force stands at around 6%. While recruited sales force as a percentage of attrited sale force stands at 20.5% in 2010-11.

6.16 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 sales-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 by company employee. However, in multi-level operations, sales agents are introduced to the business through sponsor. The sponsor benefits from new recruits' sales, hence is strongly motivated to supervise, motivate and train them. The survey have revealed that the respondent firms have offered training to their sales representatives in the range of 300 man hours per quarter to 24,000 man hours/ quarter in 2010-11.

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

7. Consumer survey analysis

As discussed in the previous sections, Indian direct selling industry is in its nascent stage. The sector is evolving year after year with new and better products entering into the market catering to the needs of the end customers. Since, word-of-mouth publicity is the main source of its promotion, the progress and demand of its products can be better judged by its users' i.e, the consumers of direct selling products. Hence the report cannot be completed without getting an insight of the industry through its consumers.

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 were derived on the responses received.

7.1 Sample selection

The study 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 278. Out of the total 278 respondents, 60% are females and remaining 40% are males. Whereas, 64% of the sample respondents are married, while 36% are single. Women seemed more amenable to direct selling than men because a large number of the products sold by direct selling have direct appeal to women.

Majority of the respondents surveyed belonged to the age group of 21-30 years, representing 43% of the total sample population. It was followed by individuals of 41-50 years (22%), 31-40 years (20%), more than 50 years (11%) and the remaining were under 20 years. Nearly 63% of the survey respondents have family size of 2-4 members. It was followed by the share of respondents with family size of 5-7 members (31%) and more than seven members (6%). The largest share of consumers was private sector employees with 67% responses. It was followed by students (15%), housewife (11%), government employees (5%) and self employed (2%).

It was revealed, that out of the total respondents, 39% of the representatives have household income of more than INR 50,000 per month. It was followed by respondents earning in the range of INR 40,001-50,000 per month (26%), INR 30,001-40,000 per month (15%), INR 20,001-30,000 per month (14%) and INR 10,000-20,000 per month (6%). Nearly 43% of the respondent's, husbands are the chief earner in their household. However, 35% of the respondents have their father as the chief earner of the family and remaining 22% are themselves self the chief earners of the family.

7.2 Analysis of data

As we have mentioned in the previous section, Indian direct selling industry is in its take-off stage with establishment of nearly 16 years only, and yet, there is small section of population who lack awareness and familiarity about this up-coming sector. On the basis of the survey, it was found that 96% of the sample population had familiarity with the concept of direct selling, while 4% are unaware of it.

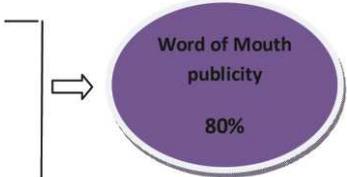
7.3 Medium of publicity

The familiarity about direct selling relies very much on word-of-mouth. This medium of marketing has strong reliance among stakeholders. As per the survey findings it was revealed that 80% of the individuals are familiar or have purchased direct selling products using this means of marketing. Nearly 50% 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 (13%), colleagues (7%) and neighbours (6%) play an important role in the expansion of the business. However, the industry is exploring

new opportunities using the social media tools. Lot of networking is going on the Internet, as 12% of the respondents used this source for their information.

Direct selling publicity among respondent(s)

Source of Direct Selling Publicity	Respondent(s)%
Friends	50
Internet	12
Relatives	13
Colleagues	7
Neighbour	6
TV/Radio	5
Salesman/agent	4
Newspaper/Pamphlets	3



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

7.4 Type of Product Purchase

The survey revealed that wellness/health care have been quite in demand among the respondents, capturing the maximum share of 32% among other products. Cosmetics and personal care grabbed second place with a share of 21%. It was followed by home care (14%), cookware and kitchenware and skin care at 10% each, food beverages (6%), ayurvedic products (4%) and equipments products (3%).

Direct selling products purchased by respondents (%)

Direct selling Product(s)	Respondent(s)%
Wellness/healthcare	32
Cosmetics & personal care	21
Home care	14
Skin care	10
Cookware/kitchenware	10
Food /beverages	6
Ayurvedic products	4
Equipment (auto)	3

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

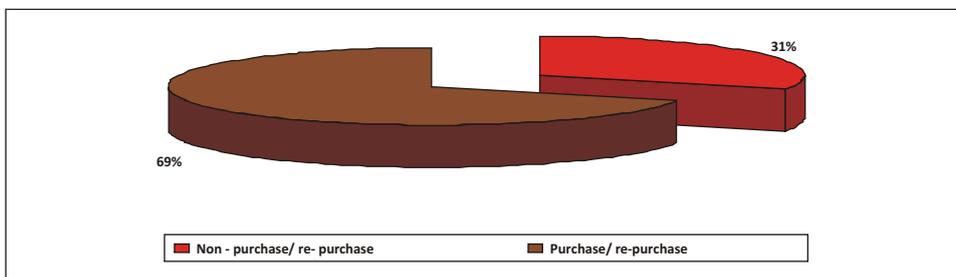
7.5 Attributes for purchasing/re-purchasing and non-purchasing of product(s)

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

The survey revealed that 69% of the respondents have purchased/re-purchased direct selling products. Several reasons like personalized attention, the chance to ask questions, chance to try products or have

them personally demonstrated and finally the trust and confidence on the word of mouth usage by relative, friend or neighbour have been attributed for this. However, remaining 31% have not purchased/re-purchased any products as they were not very positive on these products.

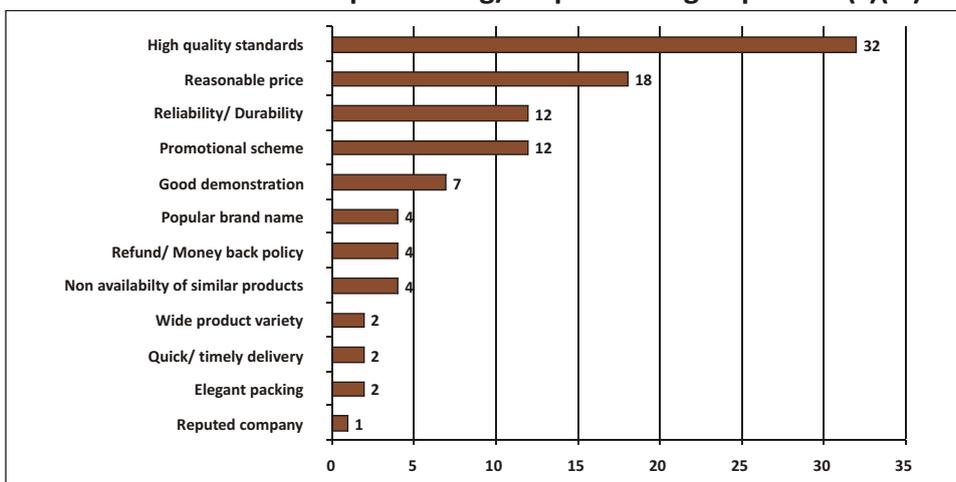
Respondents' purchasing/non-purchasing direct selling products (%)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

As per the survey, out of the 192 (69% of the total who have purchased/ re purchased) consumers, 32% of the respondents rely mainly on high quality standards of products for purchasing/re-purchasing. The other attributes include reasonable price (18%), reliability/durability (12%), offer of promotional schemes (12%) and good demonstration (7%) among others.

Positive attributes for purchasing/ re-purchasing of product(s)(%)



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

Each sector/ product has its own USP including strengths and weakness that attracts consumer to purchase it or not to purchase it. Hence, the survey has revealed product specific attributes that have pushed respondents to purchase/re-purchase that product category. It was found that respondents have chosen high quality standards as the top most priority for purchase of various products including wellness/healthcare (25% respondents), followed by personal care (24%), food/beverages (23%) and skin care (22%) among others.

Other major attributes that have attracted respondents towards purchase of wellness/healthcare products include non-availability of similar product (18%), reasonable price (12%) and reputed company name (8%). However, for cosmetics, respondents went for attributes such as non-availability of substitutes (14%), reasonable price (11%), promotional scheme (10%) and reliability/durability of the products (10%), among others.

Product wise attributes attracting purchase/re-purchase of product(s) (Responses in %)

Attributes/Sector(s)	Wellness/ healthcare	Cosmetics	Personal care	Skin care	Cookware/ kitchenware	Home care	Ayurvedic products	Food /beverages	Equipments (auto)
High quality standards	25	20	24	22	18	19	12	23	13
Non availability of substitutes	18	14	13	19	15	10	12	9	0
Reasonable price	12	11	12	10	12	16	21	17	25
Reputed company	8	8	9	4	10	10	4	9	6
Wide product variety	8	4	5	2	3	5	8	6	0
Promotional scheme	7	10	9	13	11	5	15	11	13
Reliability/ Durability	5	10	12	6	10	10	8	10	19
Quick/timely delivery	5	5	1	8	4	5	4	3	6
Good demonstration	3	4	4	4	5	3	-	-	-
Popular brand name	3	9	5	2	10	7	8	6	6
Elegant packaging	2	1	3	-	-	-	-	-	-
Refund/Money back	2	2	3	6	1	3	4	-	6
Various payment modes	2	2	-	4	1	5	4	6	6

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

For personal care products, mostly consumers expected non availability of similar products (13%), reliability/durability of the product (12%) and reasonable price (12%). For purchase/re-purchase of skin care products, respondents went with non-availability of substitutes in retail/conventional store (19%), promotional scheme (13%), and reasonable price (10%). Similarly for other products, apart from high quality standards, the top attractions were non-availability of product, reasonable price, promotional scheme and reliability/durability of the product. However, the least attractive attribute among the survey participants for products was elegant packaging.

Out of the 86 respondents (31% of the total), high prices have kept nearly 19% of the survey participants away from purchasing any direct selling products. As 15% feel that there are selective varieties of products available and they have more options available at retail chain. Another 15% feel that it is difficult to reach or contact sales agent of direct selling company. In some cases, consumers reported that direct selling represented an intrusion, and that they were concerned about letting strangers into their homes, being subjected to high sales pressure and the use of misleading and unfair sales tactics, ending up buying products they didn't need and paying an unfair price for products.

Negative attributes for non-purchasing/re-purchasing of product(s) respondents (%)

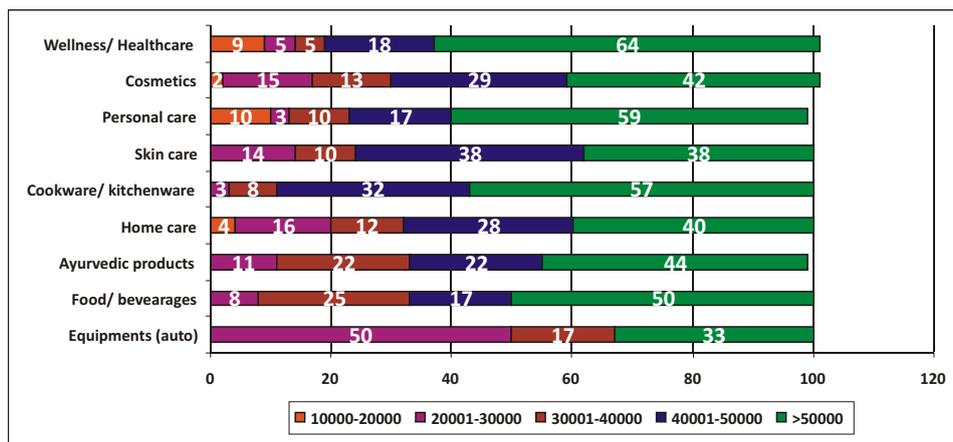


Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

7.6 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 have made very few purchases of direct selling products. Only 10% of consumers in this income bracket have gone for personal care products, followed by wellness/healthcare products (9%), home care (4%) and cosmetics (2%).

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 2010-11

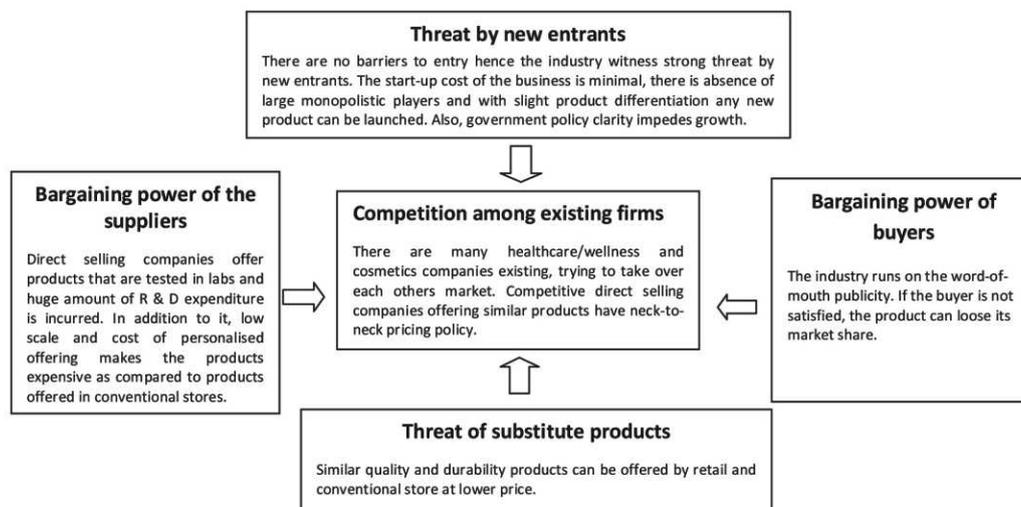
The maximum purchase of wellness/healthcare products was made by consumers with income more than INR 50,000 per month contributing a share of 64%. The survey revealed that 18% of the respondents that bought wellness/healthcare products fall under income group of INR 40,001-50,000 per month. Similarly, for all other direct selling products, maximum purchases were made by high income group consumers with more than INR 50,000 per month. It included consumers that fall under this bracket, shell out maximum

amount for personal care (59%), cookware/kitchen ware (57%), food/beverages (50%), ayurvedic products (44%) and cosmetics (42%).

To conclude, with increased awareness regarding direct selling products, larger sections of the consumer groups are being attracted towards the same. This is mainly driven by the rise in value perception and inclination towards good quality of life which has emerged among the Indian consumers. 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 and untapped consumer segments.

8. Porter's Five Forces analysis of Indian direct selling industry

Porter's Five Forces analysis is a framework for industry analysis and business strategy development developed by Michael E. Porter of Harvard Business School in 1979. It is based on five forces that determine the competitive intensity and attractiveness of the market. Porter referred to these forces as the microenvironment, to contrast it with the more general term macro environment. Porter's five forces include earlier three forces from horizontal competition and two forces from vertical competition. Porter's five forces analysis²⁹ for the Indian direct selling industry is as follows:



Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

It has been observed that the bargaining power of the direct selling firms is limited by the prices set on the higher side as a result of low scale of production and cost of personalised offering. On the other hand the bargaining power of the buyers is higher as this industry is driven by word of mouth publicity and is much dependant on their feedback. The threat from the new entrants in the industry is high on account of low start up cost while competition among firms is very high on account of similar pricing policy. There also exist threats from substitute products which are available in retail stores at lower price.

²⁹ The analysis has been conducted on the basis of inputs received through structured questionnaire.

8.1 Indian direct selling industry: Strength, Weakness, Opportunity and Threats

SWOT analysis is a technique commonly used in business circles to assist in identifying strategic issues for a company or organization. The main intention behind this analysis is to determine how each system will fare in the light of changes taking place around it. Direct selling is a unique business model. Like every marketing tool, it too has its share of strengths and weaknesses. Its strategic advantage depends on the company's goal and the strengths and weaknesses of its human resources. In the light of the above discussion, a SWOT analysis³⁰ of the industry provides a comprehensive picture of the sector.

SWOT analysis of direct selling industry

Strengths	Weaknesses
<ul style="list-style-type: none"> • Globally recognised industry • Low start-up cost industry • Independence of work • Easy access to training and support • Strong and growing consumer base • Better product life and durability. • Products are exclusive and differentiated, and thus the producers earn premium for these products • Empowerment and education opportunity • Capacity building in sales channel 	<ul style="list-style-type: none"> • Lack of communication about the direct selling activity to users and regulatory agencies. • Recruiting, training, motivating and retaining good sales people — most of whom are part timers — is a difficult and expensive task • High attrition rate • Inaccurate information imparted by sales consultants can result in the consumer being confused about the products. • Sometimes long lead time for product delivery and lack of easy access to the products, despite demand adversely affects the perception of the company among the user and sales person • Lack of knowledge of product marketing among sale force • Brand loyalty becomes difficult to garner, as there are number of fly-by-night operators.
Opportunities	Threats
<ul style="list-style-type: none"> • Provides huge employment opportunities • Provides an additional source of income • Untapped markets including north-eastern region and rural areas. • Market for more diversified products. • Customers ready to explore new products 	<ul style="list-style-type: none"> • Fake products and impersonation • Lack of education and awareness on the direct selling process, among users and regulatory agencies' • The loss of credibility of one salesperson can harm the entire hierarchical network due to the high level of interconnectivity in it. • Possible negative publicity, if there is negligence from salesperson.

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

The SWOT analysis on Indian Direct Selling Industry shows that in spite of various strength of the sector there are large number of threats and weakness. But at the same time there are number of opportunities to overcome these threats and weaknesses. For example, Indian direct selling industry is on the take-off stage, with strong consumer base, untapped markets including north-eastern region and rural areas and consumers are willing to experiment and accept diversified products. If we look in the present scenario, Indian direct selling industry is going to occupy an important position in the international market and its demand is going to rise among international players. Hence, if there is a channelized legal rules and regulations set-up by the government and proper procedure followed by various stakeholders with given opportunities, it can remove threats and weaknesses of the industry.

³⁰ The analysis has been conducted on the basis of inputs received through structured questionnaire.

9. Direct selling: Wooing women

The Indian liberalization, privatization and globalisation policies have yielded good results as it has offered immense new growth opportunities for all sectors of the economy and all sections of the society. The businesses have grown tremendously within the country and outside the country, giving excellent opportunities especially to women to think beyond the four walls of traditional households.

In India, the total workforce population³¹ stood at 287.08 lakh persons in 2010, out of which 58.59 lakh are female workers. The contribution of women employees in total employment generation have increased from 17.61% in 2000 to 20.41% in 2010. During the ten years period (from 2000 to 2010), 9.36 lakh women have been added in the total workforce, registering a growth of about 19%. The changing attitude of the society towards women can be well attributed to the factors such as rising Indian middle class, improved living standard, higher social acceptability and rise in female literacy rate as compared to males. While the literacy rate for males rose by 6.9 points from 75.26% (Census 2001) to 82.14% (Census 2011), it increased by 11.8 points for females from 53.67% (Census 2001) to 65.46% (Census 2011).

Women who earlier stayed at home to attend their domestic duties are now maintaining both work and home simultaneously. Now women have moved away from the traditional roles of homemaker and child rearing to social and business solutions. Direct Selling firms have been a major steering in this direction. Direct selling companies are few organizations that offer significant, substantial training to the people who need it most, for little to no cost. It offers a flexible working structure that facilitates working from home on a part time or full time basis with minimal investment. According to the survey, majority of the housewives are willing to enhance their skills and participate in financial responsibility of the family, however, they were not able to commit to full time vocations. For such kind of enthusiast ladies, direct selling offers financial security as well as a balance between home and work.

The major promotional strategy of direct selling firms is word-of mouth publicity. Selling products door-to-door as sales agent is often a tedious job and most of the time customers do not entertain such unknown sales agents. It is also observed that, most of the direct selling firms' products lineage is more women centric- ranging from cosmetics to home care products. So, in such a situation, direct selling firms prefer to hire women that channelized the business very smoothly, especially by organising party plans/ groups/ demonstration of direct selling products at one central place or home. They are shaping up as good professionals adding feathers in their lives as well as a major contributor in revenue generation of these firms. Direct selling is a gateway and a channel to many women out there who aspire to reach higher places. The share of women has always been more than 50% among sale consultants.

Indian women are seeing up to this profession and further creating a chain by motivating and directly referring more females to join this business. The attitude of the society towards women is changing slowly and gradually. Women are not seen with suspicious eyes as before; she is more liberated now and can lead

³¹ Employment in organized sectors including public and private, as provided by Economic Survey of India, 2011-12, Ministry of Finance, Government of India

a peaceful family life and support it economically as well. They are emerging as strong and confident individuals, in control of their own lives and capable of raising their voices.

10. Growth opportunities

In the global market, 40 percent of market share of direct selling industries is held by Asian markets. Among the Asian nations, Japan and China have already mature markets. Hence, India is the next destination for the direct selling industry to explode.

10.1 New geographical areas

According to Indian Census 2011, there are 9,391 towns and 6,40,867 villages in the country. It implies that India provides large geographical area for direct selling industry to spread its wings in the country. Apart from metros and tier I cities, the country have untapped markets in tier II & III cities and rural areas. Regarding the regions, South has already established market, whereas, driven by inspiring growth momentum, the Northern region as well as North east and East promise enormous growth opportunities.

10.2 Diversification of product categories

In India, direct selling industry is still in its early stages, there is large scope for the players to introduce new range of products in different categories and venture into different sectors. India has huge child driven market, thus like other Asian countries including Japan, Taiwan and Malaysia, Indian direct selling industry can foray in the region with products for infants and children in clothing & accessories, books, toys and stationery. The direct selling companies are in the process of expanding capacities and there is large market waiting ahead for many new diversified products in the country. Newer product categories like mobile phones, electronic items, toys and stationery, can be promoted to enhance the market.

10.3 New employment opportunities

India has a large population base, but currently the number of salesperson employed in the sector is insufficient to ensure effective coverage in the country. Hence, with the expansion of the industry, employment generation on mass level will follow. In India 68.8% of households have just a single earning member while 23.7% have two earning members and 7.5% have more than two earning members. In addition, the inflationary pressure and the demonstration effect is pushing individuals to seek for additional source of income. In the light of this situation, direct selling provides employment opportunities to those who want financial security, development of personal and business skills, flexible timings and high standard of living.

10.4 More opportunities for women

In India 65.4% of women are literate and only 17% are working. However, women want to offer financial support to the family without being away. In such a scenario, direct selling Industry provides opportunities

for women to contribute to their households as the industry does not require any educational qualification to start the business. It especially enables women to get self-employed by using their networking techniques to sell the product. It enables women to be financially independent and supplement the family income.

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. The survey revealed that majority of the respondents is planning to expand their business in next 5-10 years. Thus the prospects of expansion and enhancement of direct selling business is bright and there is enormous potential for greater market penetration, going forward.

11.1 Industry growth outlook

Survey revealed 10% of the companies felt that the growth of the direct selling industry in the next three to five years would lie in the range of 10-15%, while 24% felt that the growth would lie within 16-20% and 37% felt that the growth would lie between 21-25%. However, 22% of the companies expected the industry to grow at a higher trajectory of 23-30% while 7% felt that it would grow at higher than 30%. Hence, on the basis of responses received, the modal growth stood between 21-25 %.

Growth perception of the direct selling companies

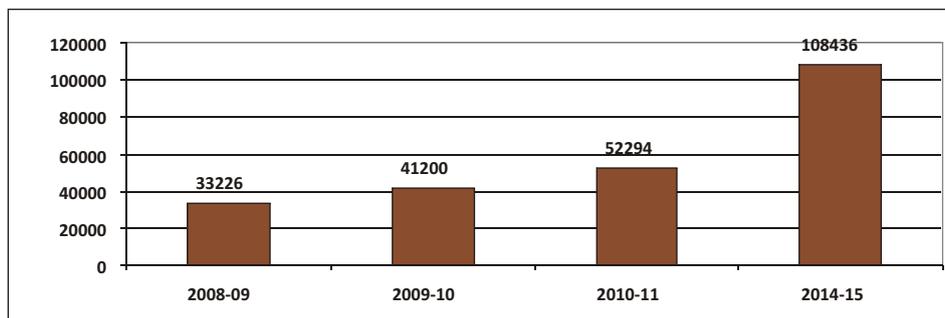
S.No.	% of respondents	Growth rate (%)
1	10	10-15
2	24	16-20
3	37	21-25
4	22	26-30
5	7	more than 30

Source: PHD Research Bureau, Annual Survey of the India's direct selling industry 2010-11

11.2 Estimated market size of the direct selling industry (excluding insurance)

Going ahead, the growth prospects of the industry are bright which is set to take off driven by strong consumer base and expanding markets. The total sales revenue of the industry is estimated to double by 2014-15 scaling upto INR 108,436 million from the present level of INR 52,294 million in 2010-11. Though the growth of the industry vary across its different segments like organized and unorganized sections, however, overall the industry is slated to grow at an average of more than 20% in the next four years. Further more, if the same growth momentum can be maintained in the longer term, then the market size is expected to reach around INR 216,900 million by 2019-20.

Market size of Indian direct selling industry (INR million)



Source: PHD Research Bureau

12. Challenges faced by direct selling industry

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

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

12.2 In India, there are broadly 18 local languages and individuals have emotional attachment to their dialects. There is a hurdle in hiring direct sellers/agents with local mother tongue to convince consumers for purchasing the product as the business develops on personal attraction.

12.3 There are few elite open minded groups of people who are willing to hear others and experiment different products. However, there are still people who are uneducated, lack knowledge, are superstitious and are not ready to accept new market methods. It is a difficult task to convince and change the mindset of this group of people.

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

³² The exchange rate of INR/USD has been calculated by averaging the exchange rate of last three years.

13. Conclusions

The Indian direct selling industry is well poised to occupy an important position in the international market. The industry has notched up remarkable growth over the years and has grown at 27% during 2010-11, expanding from INR 41,200 million in 2009-10 to INR 52,294 million in 2010-11.

The survey revealed that the share of Northern region in average turnover moved from 12% in 2009-10 to 15% in 2010-11 and on the contrary, average sales turnover of Southern region reduced from 48% in 2009-10 to 44% in 2010-11. In fact the North-east and Eastern markets have also caught up with their shares rising in total sales in 2010-11. Northern region has exhibited remarkable growth at 59% while north east and east have grown robust at 48% and 37% respectively. The western and southern direct selling markets have grown at 21% and 16%, respectively.

The direct selling industry has contributed significantly to employment generation over the years, and momentum has been kept up this year as well. The total distributor base of the Indian direct selling industry during 2010-11 stands at 3,962,522, marking a growth of around 24%.

The share of women employees have always been more than 50% in India. However, the employment in the sector among men has picked up rapidly not only as a part time option but as a lucrative full time career option. The share of men (sales representatives) has increased from 30% in 2009-10 to 36% in 2010-11. Out of the wide variety of products sold through the organised direct selling industry, products related to wellness contributed the highest share of sales (40%), while cosmetics and personal care products (32%) were also very high in demand. Among other categories of products which have attracted the customers are home improvement (10%), home care products (8%) and household durables (8%). Food and beverages and other products capture 1% of total sales in the industry.

It is interesting to note that the growth in tax collection from the direct selling member companies has jumped to 58% in 2010-11 from 11% in 2009-10 and 18% in 2008-09. Although, the IDSA member companies form only around 4% of the total number of direct selling firms in the country, they contributed significantly to taxes paid by the industry. The share of total taxes in total sales revenue generation by the IDSA member companies have increased from 17% in 2009-10 to 21.5% in 2010-11.

On an average, the direct selling firms earned profits of around 21% during the last three years. The respondents were very positive about its growing profits and felt that the industry had the potential to maintain the price-cost margins above 20% in the coming years too. As per the survey, the main drivers of growth in this sector are high quality standards of products, reliability/durability, promotional schemes and good demonstrations, among others.

The Indian direct selling industry has contributed largely to the growth of India's MSME sector by way of outsourcing their manufacturing process to these enterprises in order to produce the products

domestically. The companies' own manufacturing facilities produce only 30-35% of the total produce, the remaining 65-70% are produced through contract manufacturers which are MSMEs.

Going ahead, the growth prospects of the industry are bright which is set to take off, driven by strong consumer base and expanding markets. The total sales of the industry is estimated to double by 2014-15 scaling upto INR 108,436 million from the present level of INR 52,294 million in 2010-11. Further more, if the same growth momentum can be maintained in the longer term, then the market size is expected to reach about INR 216,900 million by 2019-20.

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

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

14. Suggestions

Based on the challenges faces by the industry, the following suggestions may be considered to provide stimulus to the sector:

14.1 Re-define wholesale and retail trade definitions

Direct selling is neither considered wholesale trade nor retail trade but a separate marketing network. It may be mentioned that wholesale trade is operated from a warehouse or office space that is not necessarily designed to attract walk-in customers, whereas retail trade deals with a variety of goods of daily need and makes these goods available to the customers at their convenience. Hence, this sector requires clear industrial classification as it provides employment³³ to more than three million individuals.

14.2 Provide industry status

Direct selling needs to be given 'industry status' like retail sector which will not only provide funds to the sector, but will get attention in terms of better regulation, proper guidelines, speedy resolution of issues in consumer court. At the same time, it provides security and justice among direct selling companies, agents and consumers.

³³ Employment in direct selling industry is defined as self employment and micro-entrepreneurship opportunities

14.3 Single window clearances

In India there are various formats of sales/marketing, with every Indian state having different set of rules and regulations. It makes the system more complex and unregulated. Issues like lengthy procedures related to registrations of the company, attaining and renewing licences, stamp duty and municipality zoning restrictions impede smooth functioning of the industry. In addition to this, the regulatory framework is overlapped by rules and regulations at district level, state level and central level. Hence, decentralization of acts and rules delay regulatory mechanism with loopholes. There is a need to streamline these processes so as to expedite process of approvals. Moreover, clearances and grievances move across one authority to other which slows down the working procedure of the sector. Hence, the multi-agency clearance mechanism should be eliminated through speedy implementation of single window clearance facility to expedite the process of approvals. The government should provide incentives to the industry in terms of lowering costs of doing business which would be critical to foster employment generation vis-à-vis absorb expanding young work-force³⁴ and rapid growth momentum in the sector.

14.4 Simplify the tax structure

As mentioned before most of the direct selling companies are of foreign origin and they met with several hurdles in establishing their manufacturing base in India. Moreover, high import duties charged on them escalate the price of the final product in the domestic market shrinking the consumer base. At the same time, local taxes including octroi and other state level taxes make direct selling products costlier. However, setting up own manufacturing facilities can help these firms in reducing their import cost, cutting down taxes and such facilities act as a hub for Asian operation too. The government should provide incentives to the industry in terms of lowering costs of doing business which would be critical to foster employment generation vis-à-vis absorb expanding young workforce³⁵ and rapid growth momentum in the sector.

³⁴ As per the National Commission on Population, the age-wise distribution of the population of India is going to change significantly in the coming years. By 2016, approximately 50% of the total population will be in the age group of 15- 25 years. Thus, there would be a tremendous increase in the number of youth entering the education and job market in the ensuing years. On an average, it is estimated that around 1.5 crore persons per annum would enter the employment market during the next 30 years. Therefore, we need to capitalize on this unique demographic advantage by generating more and more employment opportunities.

³⁵ Ibid

India: Statistical Snapshot

Indicators	FY06	FY07	FY08	FY09	FY10	FY11	FY12
GDP at FC - Constant prices Rs Bn	32,542	35,660	38,990	41,625	44,937	48,778	52,220
GDP at FC - Constant prices growth YoY	9.5	9.7	9.2	6.7	8	8.5	6.9
GDP at MP-current prices Rs. Bn	36,925	42,937	49,864	55,826	65,502	78,756	89,121
Agriculture growth	5.1	4.2	5.8	-0.1	0.4	6.6	2.5
Industry growth	9.7	12.2	9.7	4.4	8	7.9	3.5
Services growth	11	10.1	10.8	10.1	10.1	9.4	9.3
Domestic Consumption	6.7	5.9	8.3	5.4	5.3	8.7	6
Private consumption	6.8	6	8.5	2.9	7.3	8.6	6.4
Gross domestic savings as % of GDP	33.4	34.6	36.8	32	33.8	32.3	-
Gross Fixed Capital Formation as % of GDP	30.3	31.3	32.9	32.3	31.6	30.4	31.9
Gross fiscal deficit of the Centre as a % GDP	4	3.3	2.6	6	6.4	5.1	4.6
Gross fiscal deficit of the states	2.4	1.8	1.5	2.4	3.3	2.5	2.2
Gross fiscal deficit of Centre & states	6.4	5.3	4.1	8.4	9.5	7.3	6.8
Gross borrowings of Centre Rs Bn	1,600.00	1,793.00	1,882.00	3,185.00	4,924.00	3731	3921
Total liabilities of the centre Rs. Bn	22601	25386	28374	31591	35159	39311	43526
Total liabilities of the state Rs. Bn	11477	12416	13283	14702	16385	18202	-
Merchandise exports (US\$Bn)	103.1	126.4	162.9	185.3	178.7	251.1	267.4
Growth in exports	23.4	22.6	29	3.4	-3.6	40.5	23.5
Imports (US\$Bn)	149.2	185.7	251.4	287.7	288.3	369.7	434.2
Growth in imports (YoY)	33.7	24.5	35.4	14.3	0.2	28.2	29.4
Trade deficit (US\$Bn)	46.1	59.3	88.5	118.4	109.6	118.6	166.8
Net invisibles US\$Bn	42	52.2	75.7	89.9	80	84.6	52.9
Current account deficit US\$Bn	-9.9	-9.6	-15.7	-28.7	-38.4	-44.3	(-)16.9
Current account deficit as % of GDP	1	0.6	1.5	2.6	3.2	2.6	3.6
Net capital account US\$Bn	25.5	45.2	107.9	8.6	53.4	59.7	18.4
Overall balance of payments US\$Bn	15.1	36.6	92.2	-20.1	13.4	13	5.7
Foreign exchange reserves US\$Bn	151.6	199.2	309.7	252	279.1	304.8	294.9
External debt - Short term US\$Bn	19.5	28.1	45.7	43.4	52.3	65	71.5
External debt - Long term US\$Bn	119.6	144.2	178.7	181.2	208.7	241.5	255.1
External debt - Gross US\$Bn	139.1	172.4	224.4	224.5	261	306.4	326.6
Money supply growth	16.9	21.7	21.4	19.3	16.8	15.9	14.4
Bank credit growth	37	27.6	21	17.5	17.1	21.2	16.8
WPI inflation	4.4	6.5	4.7	8.1	3.9	9.5	6-7
CPI inflation	4.2	6.8	6.2	7	12.3	10.4	7-8
Exchange rate Rs/US \$ annual average	44.2	45.2	40.2	46	47.4	45.5	47.7

Source: PHD Research Bureau compiled from various sources

References

Sr. No. References

1. Economic Survey of India, 2011-12, Ministry of Finance, Government of India
 2. Household Consumer Expenditure Survey, 2009-10, NSSO, Government of India
 3. International Monetary Fund, World Economic Outlook, April 2012
 4. National Income Statistics, Centre for Monitoring Indian Economy, July 2010, Mumbai
 5. Reserve Bank of India Database, Mumbai, India
 6. Socio-Economic Impact of direct selling: Need for a Policy Stimulus, ICRIER, 2011
 7. 'The Bird of Gold': The Rise of India's Consumer Market', May 2007, Mckinsey
 8. The Indian Direct Selling Industry, Annual Survey Findings: 2008-09, Ernst & Young
 9. The Indian Direct Selling Industry, Annual Survey Findings: 2009-10, Ernst & Young
 10. World Federation of Direct Selling Association, Washington, DC, USA
-

Profile of Researchers, PHD Research Bureau



Dr. S P Sharma

Dr. S P Sharma, Chief Economist & Head of Research, PHD Chamber of Commerce and Industry, has around 15 years of varied experience in the fields of the economy and businesses. He has held various positions in Government, Industry Chambers and Corporates. He has worked with Economic & Statistical Organisation, Government of Punjab, Cabinet Secretariat of Government of India, the Assocham, PriceWaterhouseCoopers, and the Tata Capital. Dr. Sharma has conducted various economic and business studies for Ministry of Commerce of Government of India, UNCTAD, European Commission, Industry Chambers and Corporates. He has a Ph.D. in International Business from the Panjab University, Chandigarh



Harsh Vardhan

Mr. Harsh Vardhan, Research Officer, PHD Chamber of Commerce and Industry, has around four years of experience in marketing research and socio-economic research. He has worked with Reliance Communications Limited before joining PHD Chamber. During his tenure in PHD Research Bureau, he has played vital role in managing day to day research activities of the Bureau and has done several thematic research studies. He has also prepared profiles of the various states served by the PHD Chamber. He is an MBA from Guru Gobind Singh Indraprastha University, Delhi.



Malini Bhattacharya

Ms. Malini Bhattacharya, Research Officer, PHD Chamber of Commerce and Industry, has around three years of experience in extensive socio-economic research and study of the Indian macroeconomy. As a part of the PHD Research Bureau, she has been instrumental in preparing various thematic research studies on different segments of the Indian economy, analytical reports on economic indicators and conducting survey based studies. She is a postgraduate in Economics from the Jadavpur University, Kolkata.



Surbhi Sharma

Ms. Surbhi Sharma, Research Associate, PHD Chamber of Commerce and Industry, has been proficiently managing day to day research activities on various socio-economic issues and has worked on numerous thematic research studies. In addition to this, she has also prepared various state profiles which are under the command area of PHD Chamber. She is a postgraduate in Business Economics from Guru Nanak Dev University and a graduate in Economics from Delhi University.



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.