

# Direct Selling Industry In India-An Overview

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Shruti V.Joshi  
Dr.Apoorva Palkar

## ABSTRACT

Direct Selling is an alternate distribution channel which establishes direct reach to consumers. It is a rapidly emerging channel, that boosts self employment opportunities, encourages women empowerment and holds immense importance to the overall economic system. However, despite its double-digit growth, limited information about this sector is available.

This research article assesses the direct sales industry across several parameters such as revenue generated, sales force employment, product category coverage and its contribution to the government exchequer through a span of eight years for 2005 to 2013. It also highlights the issues and challenges that inhibit the growth of the direct selling industry.

*Keywords: Direct selling, product categories, employment, exchequer, contribution*

### Introduction

The expanding Indian consumer market coupled with rising urbanization, growing middle class population and changing consumer preferences 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 rapidly picking up pace in the country.

“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’s (IDSA) definition)

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 out reach. It helps cater to consumers who do not have easy access to retail. The direct selling industry in India has been in existence for the last 12 years. Its USP of low investments and high returns has made it a great equalizer and a key driver of balanced growth in the country. Direct selling is a form of economic activity that could play a very important role in a country like India. It is a low transaction cost mechanisms for sales that has a very high value added component, is not very resource intensive unlike other forms of sales and marketing.

### Review of Literature

Despite being the oldest method of commercial distribution known to mankind, direct selling is not well understood (Albaum 1992; Peterson & Wotruba 1996). At times, direct selling is improperly equated with undesirable manifestations like the pyramid scheme (Ella 1973; Vander Nat & Keep 2002), and frequently direct selling is confused with direct marketing (Bauer & Miglautsch 1992). Direct

marketing is defined as “Relational marketing process of prospecting, conversion, and maintenance that involves information feedback and control at the individual level by using direct response advertising with tracking codes” (Bauer & Miglautsch 1992). So we can find several methods of commercial distribution that are direct marketing but not direct selling, as teleshopping, mail order, etc. Almost all DSO’s use self-employed independent contractors who undertake the selling function, typically on a part-time basis. Usually the salespersons begin with high expectations but in many cases the work is harder than they think, leading to high sellers’ turnover (Wotruba & Tyagi 1991; Brodie et al 2002a).

DSO’s can use personal selling or group selling. Major modes of direct selling include one-on-one selling at home, one-on-one selling at a workplace, a sales party at a consumer’s home, and a sales party at a workplace, church, or other location (Peterson et al 1989). The products that are successfully marketed through direct selling should (ideally) possess some form of distinctiveness, require some demonstration, and generate repeated sales (Peterson & Wotruba 1996).

Direct Selling typically includes home selling situations such as door-to-door solicitations, appointments, referrals and product parties, as well as catalogues and the Internet to disseminate information. By design, direct selling firms rely more on the selling skills of their sales force than on not personal communications such as advertising (Vander Nat & Keep 2002). Direct salespeople “are usually independent contractors, not company employees, and opportunities with direct selling companies are open to persons from all backgrounds, experience levels, and personal characteristics. Clearly, direct selling is a business activity of significant importance both in financial and human terms” (Brodie et al 2002b, p.67).

This research article is aiming to contribute to a better understanding of how Direct Selling Direct selling companies have also been active in contributing to the social and economic development of the country .

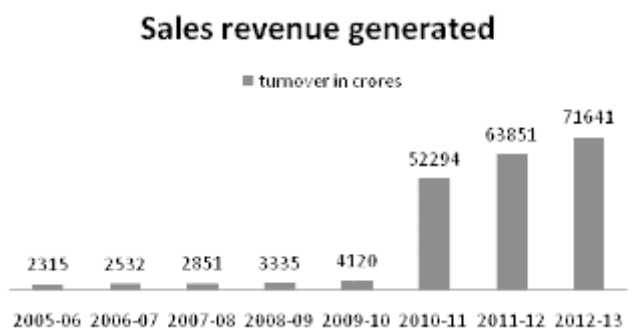
## Objectives

1. To study the emerging trend in sales revenue in the Direct Selling Industry of India
2. To understand the extent of geographical penetration and product diversification of the Direct Selling Industry of India.
3. To gain an insight into the critical success factors of the Direct Selling Industry
4. To investigate the contribution of direct selling to gainful employment
5. To assess the growth outlook, going forward.

## Indian Direct Selling Industry

Major players in the market believe that India, with its large population and increasing per capita income, presents an attractive opportunity for companies to expand their footprint. Growth in direct selling is expected to continue being driven by the emerging markets in tier-I and tier-II 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.

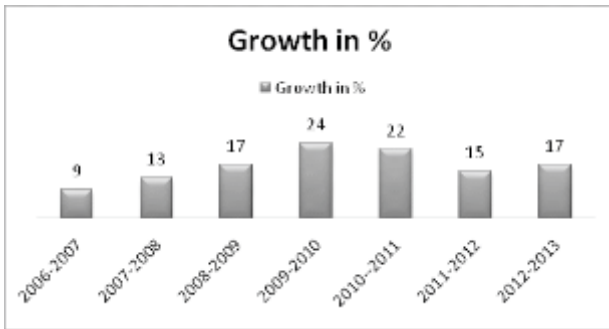
Graph 1: Sales revenue generated by direct selling industry



The sales revenue of the Indian Direct Selling Industry has registered remarkable growth over

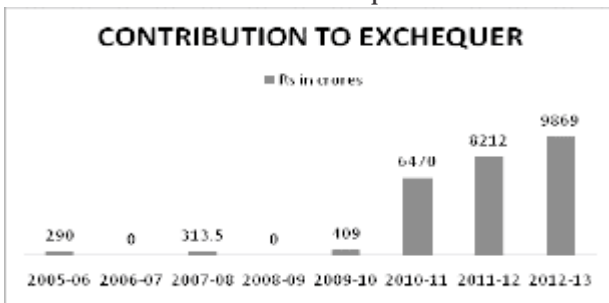
the recent years. Except in 2011-12, because of the economic slowdown, the direct selling industry has shown an upward graph, posting growth year on year and expanding its horizons in India. It ranks 23rd worldwide in terms of the revenue generated.

Table 1:Percentage growth in sales revenue



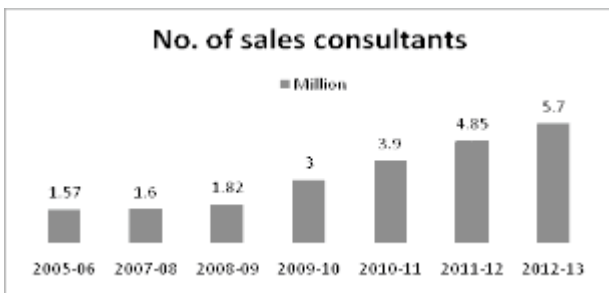
Despite showing an upward trend in sales revenue generation ,the growth rate showed a 2%decline in 2011 and in 2012 , the impact of the economic slowdown and decline in overall growth was also reflected in the declining growth rate of the direct selling industry. However the year 2013 again saw the growth curve of direct sales return to its upward path.

Table 2:Contribution to Exchequer



The figure clearly show that both the organized and unorganized direct selling companies are contributing significantly to the Exchequer and this belies the allegation that direct selling business is an illegitimate business carried out to dupe the consumer and the exchequer. The taxes thus generated also indicate its role and contribution to the economic activity of the country.

Table 3:Sales Consultants.



The rising number of sales consultants shows a steady increase in the number of individuals looking upon direct selling as a favorable business option. Direct selling industry is also providing gainful employment and augurs well for the growth of the direct selling industry. India ranks 11 th among the top 25 countries worldwide in the number of sales consultants.

Women have dominated this industry as sales consultants and have traditionally formed more than 50% of the work force. However men as distributors have shown steady increase from 32.5% in 2009-10 to 36% in 2010-11 and then 37.5% in 2011-12.

#### Geographic contribution to direct selling

In 2007-08 direct selling companies covered 4648 towns and cities and 270 rural areas. In 2008-09 South India was the hub of the direct selling industry, followed by North India. Delhi and Maharashtra showed the highest propensity towards direct selling .The metros contributed at least 57% of the overall revenue ,29.5% of which came from Tier II cities and 14% form Tier I cities. In 2009-10 South India led followed by the West and then W .Bengal and then the North Eastern States. Revenue from Tier II cites increased to 38%,metros reduced share from 57% to 38% and Tier I cities went down from 29% to 24%.

2010-11 saw a turnaround for North India from 12% in 2009-10 to 15% in 2010-11.In 2010-11 South still led with 24264 million followed by North(12770 million),West(10854 million)and East(9574 million).

South India showed a decline in 2012-13 but North East showed a sharp increase of 27%

#### Product categories showing growth

The fastest growing categories over the years have been the Nutrition and Wellness ,Home kitchen and beauty products .Since 2008-09 wellness and nutrition have led with it contributing 32% to the overall followed by personal and cosmetics at 18%.In a span of two years ,2011-12 saw wellness at 44% and beauty and personal care at 33%.Categories like

Consumer and household durable stood at (6%), Home and Household improvement products at (14%), Food and beverages at (1%) and other categories at (3%). In 2012-13 Wellness and health (33%) topped the charts with Personal care and cosmetics (30%) coming a close second. Household and home care products (14%) though did not show any growth, consumer and household durables (10%) has been showing improvement.

The wellness and health category showing consistent sales probably is an indication of the awareness of health and fitness and also the ill effects of lifestyle related issues which has led to the consumption of health and wellness supplements. Emergence of concepts like the metro sexual male in urban areas, working women in the work force and effect of television and other media are all factors which have led individuals to pay special attention to personal care and grooming.

The presence of Amway (wellness and personal care) and Avon (personal care and beauty), Tupperware (household goods and home improvement) some of the largest players in the direct selling market all focus on products in the top three categories.

#### The Road Ahead- Growth outlook

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 at the government, stakeholders and consumer level.

Lack of barriers to entry, coupled with absence of a robust regulatory mechanism, have made the direct selling space in India vulnerable to fly-by-night operators whose sole purpose is to maximize their revenues through membership fees without generating actual product sales.

Lengthy procedures related to registrations of the company, attaining and renewing licences, stamp duty and municipality zoning restrictions. Overlapping of rules and regulations at district level, state level and national level of the regulatory

framework leading to decentralization of acts and rules delaying regulatory mechanism with loopholes, clearances and grievances moving across one authority to other slowing down the working procedure of the sector are all areas of concern at the regulatory level.

Multi-agency clearance mechanism needs to be eliminated through speedy implementation of single window clearance facility to expedite the process of approvals. The government needs to provide incentives to the industry in terms of lowering costs of doing business which is critical to foster employment generation vis-à-vis absorb expanding young work-force and rapid growth momentum in the sector. Stakeholders need to continue interacting with the Government to ensure mitigation of challenges faced due to lack of regulations and barrier to entry.

Retaining quality human resources and constantly motivating them is a key challenge that companies in the direct selling space are facing today. Very often individuals leave networks taking entire teams of people with them. This leads to greater costs such as the ones due to repeated training requirements. Companies need to focus on building human capital to improve prospects of sales consultants in the industry and reduce attrition.

Commoditization of products is also increasing due to increasing availability of products through indirect selling channels. The increasing awareness, driven by this trend, also undermines the need for product demonstrations – earlier the USP of this industry. A continuous focus on spreading awareness about this industry must also be maintained. Companies need to build trust and lasting relationships with customers to enlist long-term customers who will remain loyal to the brand in a market where choices are plenty. Continuous efforts to understand customer issues and focus on development and selling of differentiated product in sync with these issues and leveraging of modern tools like the internet, mobiles and social media to increase connectivity with customers is the need of the hour.

This will have a direct impact on the bottom line of companies. The effective addressing of these issues will help the industry to continue on a track of robust growth to create societal benefit and achieve its full potential.

### Conclusion

Direct selling as an alternate channel is important as it can lead to disintermediation, reduction in transaction costs and bridging the gap between consumer prices and manufacturer prices, facilitated by the use of technology. Urbanization, income and consumption growth, higher female work participation rates and dual income families increase the importance of transaction costs and their decline. Direct selling industry in India is fast catching up and has the potential to can enhance the economic growth trajectory.

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Shruti V. Joshi : Assoc. Professor, SIMCA  
Dr. Apoorva Palkar: Director, SILC