



Direct selling reports a robust 24% growth for the year 2009-10

IDSA - Ernst & Young Annual Survey findings 2009-10 released at its 3rd Knowledge Forum

Key findings:

- ✓ Product coverage has increased with four different product categories covered by more than 30% of the surveyed companies, compared to two categories last year.
- ✓ The 4 product categories are Health and Personal care, household goods & consumer durables. Health 74% and personal care 66%.
- ✓ While fewer companies are present in the category of Household goods and select consumer durables. They have also shown strong growth of 24% and 12% respectively.
- ✓ South India remains the hub of the direct selling activity followed by Western India
- ✓ Smaller towns emerged as key markets at 38% of overall industry value
- ✓ New trends emerged - Rural focus, advertising and web based ordering
- ✓ Direct Selling Industry expected to reach INR 7100 Crores (US\$1,580 million) by 2012-13

Chennai, December 15, 2010

Addressing the press, Indian Direct Selling Association (IDSA) at its **3rd Knowledge Forum**, in association with **Ernst & Young** released its **Annual Survey 09-10** on the Indian direct selling industry today in Chennai. The survey indicates that at INR 4,120 Crore (US\$915 million) for the fiscal year 2009-'10, the industry has displayed a robust 24% growth over the previous year (2009) of which the organized sector accounted for INR 3,750 Crore (US\$835 million) and the unorganized sector for INR 370 Crore (US\$80 million), increasing from INR 3,027 Crore (US\$670 million) and INR 303 Crore (US\$65 million) respectively in 2009.

Ms Chavi Hemanth Secretary General IDSA opened the forum and highlighted key facts & figures about direct selling business in India.

Mr Pinakiranjan Mishra, Partner & National, Retail & Consumer Product Practice, Ernst & Young informed, "Companies are increasing product coverage to boost revenues".

Mr Mishra further explained, "Companies increased their product coverage with 4 different product categories being marketed by more than 30% of the surveyed companies as opposed to 2 different product categories last year. However, encompassing nearly 47% of the entire market size, health is the most prominent category involving nearly 35% of the major direct selling

companies. Health and personal care categories have seen robust growth of 74% and 66% respectively”.

Mr Yoginder Singh, Chairman, IDSA was delighted to announce the strong growth trajectory and turnover of Indian Direct Selling Industry to INR 7,100 Crore (US\$1,580 million) by 2012-13 and this growth would be manifold once we have a clear regulatory framework on direct selling.

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Mr. Yoginder Singh also informed the press, “South India remains the hub of the direct selling activity followed by west India. Presence of a large base of Independent Sales Consultants combined with a high level of awareness of the direct selling concept has contributed to the growth of direct selling in south India. Maharashtra has emerged as the number one state for 33% of member companies with West Bengal and the North Eastern states entering the top four states of 47% member companies”.

He also informed that “Revenues from Tier-II cities and others reported a robust growth. Increasing from 14% of the overall market in 2008-'09 to 38% this year. However, the share of metros reduced from 57% to 38% in the same period. The contribution of Tier-I cities also went down from 29% to 24% of the total market in the same period”.

Lastly he said that, Companies need to continue building 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. Direct selling companies also need to continue interacting with the Government to ensure mitigation of challenges faced due to lack of regulations. Our focus is very clear we will continue to spread awareness about this industry in forums just like this one today.

Ms Chavi Hemanth, Secretary General, IDSA informed, “A key impact made by direct selling activity is visible in the number of Independent Sales Consultants (ISCs) currently participating in the industry. Over 3 million individuals are involved in direct selling activity across India compared to 1.8 million last year. 2.1 million ISCs were women up from 1.2 million last year, indicating the industry’s significant role in taking in and empowering women”. **She also stated** that women form the core of the industry worldwide, with 67% in Asia /Pacific, 82% in Europe/Africa and 83% in America/Canada.

India's economy during this fiscal is poised to grow by 9%, the highest in 3 years. India is also the 6th largest country in terms of Purchase Power Parity. It has an immense young population base which is ready to experiment.

The growth shown in direct selling this year will continue in the years to come. She affirmed that the growth registered today is because of the foundation laid by ethical companies while starting the direct selling business in India and formation of the Indian Direct Selling Association (IDSA). She also mentioned that the bigger companies will consolidate and the startup companies will add to the pie of direct selling industry.

Mr Ajay Khanna, Vice Chairman, IDSA stated that the importance of the Indian market for the global players is also evident from the capital investment that these organizations have earmarked for their Indian operations. He confidently said that the immediate future will see hectic activity in the direct selling space, with market players diversifying into new and nascent product categories in a bid to capture market share. He thanked Ernst & Young and members of the media for joining us. He requested the media to be a part of the growth trajectory of the industry by reporting facts.

Objective of the Survey:

The 2009-2010 survey on the direct selling industry conducted by Ernst & Young in close collaboration with the Indian Direct Selling Association (IDSA) aimed at capturing the current state of the direct selling industry in India across several key parameters encompassing revenues, sales force employed, product category coverage, distribution reach and most importantly the contribution of this industry to the government exchequer. The Report also addressed points like challenges faced by this industry and the overall future outlook.

Methodology of the Survey:

To obtain a comprehensive perspective of the direct selling activity, an exhaustive list of companies across product categories and services was first compiled to get a detailed perspective of this industry. Subsequently, Companies representing the industry universe were selected in consultation with IDSA, taking into account parameters such as revenue, size, product category coverage and acceptance for participating in the interaction.

The key activities in conducting the survey were: Questionnaire preparation covering the key aspects to be analyzed, Data Gathering, Discussions with top management personnel of companies in the industry, Analysis of data and Interpreting final results of it.

About 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.

Incorporated in 1996 and headquartered in Delhi, IDSA strives to create and further an environment conducive to the growth of direct selling industry in India, partnering industry and government alike through advisory and consultative activities.

IDSA catalyses change by working closely with government on policy issues, enhancing efficiency and ushering in desired credibility, clarity & confidence in Direct Selling.

Since its inception the Association has grown to several members representing over 3 million independent salespeople in India and still counting.

IDSA's member companies are leading Indian and International Organizations engaged in the business of direct selling in India.

The association is also associated with the World Federation of Direct Selling Associations (WFDSA), a non-governmental, voluntary organization globally representing the direct selling industry as a federation of national Direct Selling Associations.

The IDSA and WFDSA table annual plans to take steps so that an environment that supports direct selling emerges and the independent entrepreneurs can create fulfilling careers in direct selling just like in over 150 nations of the world.

IDSA has currently 18 members representing both domestic and global companies of repute that include:

• 4 Life Trading India Pvt, Mumbai, www.india.4life.com
• Altos Enterprises Ltd, Ludhiana, www.altosindia.net
• AMC Cookware (India) Pvt. Ltd, Bangalore, www.amc.info
• Amway India Enterprises Pvt. Ltd, Noida, www.amway.com
• Avon Beauty Products India Pvt. Ltd, Gurgaon, www.avonindia.in

• CNI Enterprises (India) Pvt. Ltd, Bangalore, www.cni-india.com
• Daehsan Trading (India) Pvt. Ltd, Delhi, www.daeshanindia.com
• Elken International India Pvt. Ltd, Bangalore www.elken.com.my
• Forever Living Products (India) Pvt. Ltd, Mumbai, www.foreverliving.com
• Herbalife International India Pvt .Ltd, Bangalore, www.herbalife.com
• Hindustan Unilever Network, Mumbai, www.huln.co.in
• Jafra Ruchi Cosmetics India Pvt Ltd, Delhi, www.jafra.net.in
• K-Link Healthcare (India) Pvt. Ltd, Chennai, www.klinkindia.in
• Mary Kay Cosmetics Pvt. Ltd, Gurgaon, www.marykay.co.in
• Max New York Life Insurance Co. Ltd, Gurgaon, www.maxnewyorklife.com
• Modicare Ltd, Delhi, www.modicare.com
• Oriflame India Pvt. Ltd, Delhi www.oriflame.co.in
• Tupperware India Pvt. Ltd, Gurgaon www.tupperwareindia.com

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Executive summary

Direct selling continues to maintain a strong growth trajectory

At INR 4,120 crores (US\$915 million¹) for FY09–10, the industry displayed a robust 24% growth over the previous year (2009) of which the organized sector accounted for INR3750 crores (US\$835 million) and the unorganized sector INR370 crores (US\$80 million), increasing from INR 3,027 crores (US\$670 million) and INR303 crores (US\$65 million), respectively in 2009. 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.

Direct selling companies have also been active in contributing to the social and economic development of the country, with more than INR409 crores (US\$90 million) paid as taxes

Companies are increasing product coverage to boost revenues

Companies increased their product coverage with 4 different product categories being marketed by more than 30% of the surveyed companies as opposed to 2 different product categories last year. However, encompassing nearly 48% of the entire market size, health is the most prominent category involving nearly 35% of the major direct selling companies. Health and personal care categories have seen robust growth of 74% and 66% respectively.

Robust growth continues to drive social benefit with a 67% increase in the number of ISCs

A key impact made by direct selling activity is visible in the number of ISCs currently participating in the industry. More than 3 million individuals are involved in direct selling activity across India compared to 1.8 million last year. Among the ISCs 2.1 million were women, up from 1.2 million last year, indicating the industry's significant role in taking in and empowering women.

Smaller towns emerged as key markets for the industry contributing 38% of overall industry value

Revenues from tier-II and other cities reported a robust growth increasing from 14% of the overall market in 2008–09 to 38% of the market this year. However, the share of metros reduced from 57% to 38% in the same period. The contribution of tier-I cities also went down from 29% to 24% of the total market in the same period.

South India remains the hub of the direct selling activity followed by west India. Presence of a large base of ISCs combined with a high level of awareness of the direct selling concept has contributed to the growth of direct selling in south India. Maharashtra has emerged as the number one state accounting for 33% member companies with West Bengal and the North Eastern states entering the top four states with 47% member companies.

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.

Strong drivers of growth will enable the industry to reach INR 71 Billion by 2012-'13

From an overall perspective, growth prospects of the direct selling industry in India remain robust. 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. 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. Increasing capital investment on the supply side, with companies venturing into multiple product categories is also expected to drive growth.

In light of these factors, the industry remains on track to reach an estimated market size of INR7,120 crores (US\$1,580 million) by 2012–13, growing at a CAGR of more than 20%.

¹ US\$1=INR45

Rural focus, advertising and web based ordering have emerged as new trends

A growing focus on smaller towns and cities has meant tweaking the portfolio to include products with a mass appeal and with smaller stock keeping units (SKUs). Use of sachets meant for product testing as a marketing method has perhaps been most effectively used in smaller towns to enable companies build trust with the clientele in these areas.

As India is a vast and diverse country and brand building is limited to word of mouth publicity and special events, mass media advertising has emerged as a new trend in the industry. Companies are fast realizing the impact such advertising campaigns can have in helping them gain customer attention and brand recall.

With growing internet penetration and increase in number of people using the web, web-based ordering portals have caught the attention of companies. Even as the customer can order online, the sales are routed through an independent sales consultant to prevent any channel conflict.

However, retaining human capital and commoditization of products emerge as new challenges

The industry has faced challenges due to the lack of awareness and communication and lack of focus on comprehensively training its consultants. However, other new challenges have emerged. 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.

Retaining quality human resources and constantly motivating them is a key challenge that companies in the direct selling space are facing today. The problem is further compounded by the fact that 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.

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.

Going forward, the industry needs to address these challenges to sustain robust growth

Stakeholders need to continue interacting with the Government to ensure mitigation of challenges faced due to lack of regulations and barrier to entry. A continuous focus on spreading awareness about this industry must also be maintained. Companies need to continue building 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. In this endeavor, companies need to focus on developing and selling differentiated products that address customer issues and can leverage the power of modern tools such as mobile and internet connectivity to reach out to customers. Companies also need to focus on building human capital to improve prospects of sales consultants in the industry and reduce attrition. 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.
