KPMG

FICCI

Direct Selling: Andhra Pradesh and Telangana

Global industry, empowering millions in India

KPMG.com/in | ficci.com

Table of contents





Foreword
pg. 01

Executive summary
pg. 03

Global direct selling market
pg. 07

Direct selling market in India
pg. 17

Direct selling in Andhra Pradesh and Telangana
pg. 21

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.



Direct selling opportunity in Andhra Pradesh and Telangana's potential in 2025
pg. 27

Challenges faced by the Industry
pg. 31

The regulatory challenge and the way forward
pg. 33

Myths surrounding to direct selling
pg. 43

Annexures
pg. 47

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Foreword



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

FICCI

With economic development and growing consumerism, various store and non-store retail formats have evolved to cater to the growing retail sector in India. The Indian direct selling market at INR74 billion (2013-14) has been recording double digit growth of more than 16 per cent over the past four years. The growing Indian market has attracted a large number of Indian and foreign direct selling companies.

While direct selling is a relatively new industry, it has provided self-employment opportunities to more than 0.3 million people in Andhra Pradesh & Telangana, out of which nearly 60 per cent are women. Besides providing additional income opportunities to direct sellers, the industry also generates a large amount of direct employment. A majority of the direct selling companies outsource the production, packaging and distribution of their products thus generating direct employment across the value chain while enabling the development of the SME sector. The industry also contributes to the exchequer and generates taxes. The industry has the potential solution to several socio-economic challenges being faced by the country. Many direct selling companies have been at the forefront of social activity, actively contributing to it.

However, there has been a lack of clarity on the legislations governing this industry. We strongly believe that a clear distinction between fraudulent companies and legitimate businesses should be brought on to the table.

We as the direct selling sub-committee give insight into the issues faced by this labor-intensive industry. The sub-committee has an advisory board of judgment comprising of neutral and intellectual people.

FICCI is hopeful that this report will provide insights and actionable recommendations for putting together a conducive legal environment for the industry.



Dr. A. Didar Singh
Secretary General, FICCI

KPMG in India

Direct selling is one of the oldest, most-traditional form of selling globally involving direct interaction between the seller and the buyer. Today it is a successful industry operating in over 100 countries globally with a market size of USD180 billion.

The direct selling industry in India is estimated at INR74 billion (2013-14), and forms only around 0.4 per cent of the total retail sales. This is far lower than other comparable economies (one-half of direct selling market size of China and one-tenth of Malaysia). With growth in consumer markets and increase in its penetration to globally comparable levels, the industry has the potential to reach a size of INR645 billion by 2025.

With a high rate of economic development, the Consumer Goods (FMCG) market is well developed in Andhra Pradesh and Telangana, especially in urban markets like Hyderabad, Vijayawada and Vishakhapatnam.

The direct selling industry has contributed significantly to women empowerment, skill development, technology percolation and growth of the SMEs sector, besides contributing to the exchequer. In addition, the industry also provides a viable means of alternative income, which promotes self-employment. Over 0.3 million people in Andhra Pradesh and Telangana are already associated with the industry as direct sellers.

With the success of the industry, which relies on individuals to accomplish sales, a number of fraudulent businesses have also tried to emulate the form, but with malicious intentions and outcomes. This has impacted the industry, which recognises this as the biggest challenge to its growth. There is a need to revisit existing laws and bring about regulatory clarity to build an environment of trust in order to reap some of the benefits that the industry has to offer.

The need of the hour is to sensitise the consumers and the stakeholders and engage in continuous lobbying with various government entitiesto propose appropriate legislation and represent the interests of the direct selling industry.



Rajat Wahi
Partner and Head,
Consumer Markets, KPMG in India

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Executive summary



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

What is direct selling?

Direct selling refers to selling goods and services to the consumers away from a fixed retail outlet, generally in their homes, workplace etc., through explanation and demonstration of the product by the direct sellers. It is one of the oldest modes of sales, and is similar to the traditional consumer goods retail model.

Evolution of direct selling market in India

Modern direct selling can be considered to have been started in India with the establishment of Eureka Forbes in 1982[1]. The industry witnessed significant growth post-liberalisation with many global players entering the Indian market. Amway was one of the first major global direct selling companies to enter India in the year 1995, which was followed by companies like Avon, Oriflame and Tupperware in 1996. Around the same time Modicare was one the first few Indian companies to adopt this channel of distribution[1].

Direct selling in Andhra Pradesh and Telangana

Today, the direct selling market in Andhra Pradesh and Telangana is estimated to be in the range of INR3.3 – 3.5 billion[1]. Our interactions with industry stakeholders suggests that the industry has created a positive impact on several other social and economic parameters.

a. **Additional income opportunities:** Direct selling provides additional income opportunities to large numbers of people and helps promote micro-entrepreneurship. Currently, over 0.27 million direct sellers are estimated to be engaged with the industry in these two states, and this is projected to grow further with the growth of the industry[1]. In addition to providing income opportunities, direct selling also imparts transferable skills in sales and management, which can be used outside the direct selling industry as well.

b. **Women empowerment:** Direct selling offers self-employment opportunities to a large number of people, especially women. Direct selling helps give women the flexibility to manage their time and balance their work and personal lives. The industry in FY14 provided self-employment to more than 0.16 million female distributors (58 per cent of the total direct sellers workforce in the state). Many companies work towards the empowerment of women. Through Project Shakti, Hindustan Unilever (HUL) markets and sells its health and beauty care products by recruiting female entrepreneurs called 'Shakti Ammas'[1].

c. **Development of the SME sector:** Most direct selling companies rely on SMEs to manufacture of their products. They also rely on ancillary support services such as packaging, labelling, logistics and material supply. In most cases, the direct selling companies impart the manufacturing know-how, technology and processes to help the SMEs produce world-class products. In many cases, it has been seen that the direct selling companies also provide the right equipment and machines to the SMEs for production. Driven by these initiatives, many SMEs have now developed capabilities to cater to the needs of Multi National Companies (MNC) and have commenced supplies to them, promoting India as a manufacturing destination.

d. **Employment generation:** Besides providing additional income opportunities to direct sellers, the industry also generates a large number of direct employment. Majority of the direct selling companies outsource the production, packaging and distribution of their products thus generating indirect employment across the value chain.

e. **Social Initiatives:** In terms of responsibilities towards society, direct selling companies have been in the forefront. Many of the companies involved in direct selling actively contribute towards social activities. Avon's Breast Cancer Crusade and Amway's Sunrise project for education are well known for their social impact[1].

f. **Contribution to government exchequer:** The operating model for direct selling generates tax contributions to the government across its value chain. Total indirect tax contribution by the direct selling industry to the government in FY14 alone is estimated to be in the range of INR320-370 million and this could go up to INR4.5 – 5.0 billion by 2025[1].

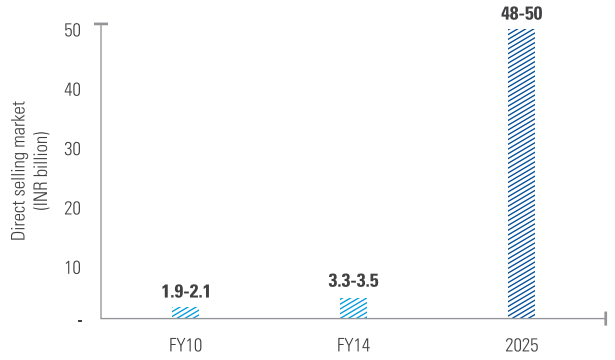
Going forward, the industry has the potential to create a significant social and economic impact in Andhra Pradesh & Telangana. Our estimates suggest that the industry in these two states has the potential to reach a sise of INR48- INR50 billion by 2025, driven by growth in consumer markets and the increase in the penetration of direct selling to globally-comparable levels. This will however be contingent on creating an enabling environment for the industry, and mitigation of some of the challenges it is faces today.

1. KPMG in India analysis, 2015

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Immense market potential of INR48 - 50 billion

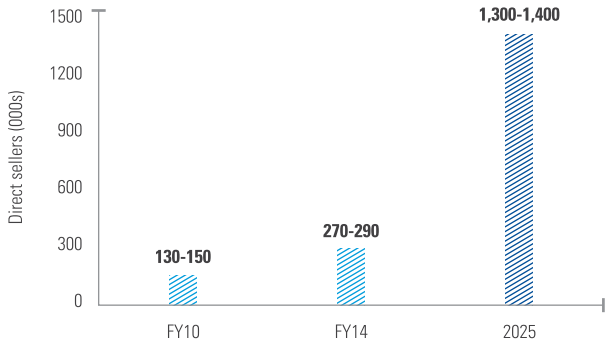
Direct selling market in Andhra Pradesh and Telengana



Source: KPMG in India Analysis, Industry Discussions, IDSA Report 2013-14, FICCI Direct Selling Task Force

..offering self-employment opportunities to 1.3-1.4 million

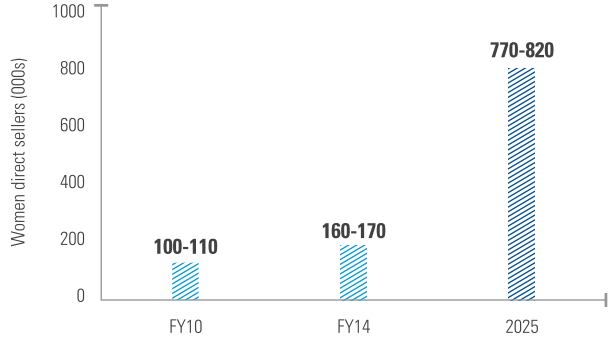
Self-employment opportunities



Source: KPMG in India Analysis, Industry Discussions, IDSA Report 2013-14 FICCI Direct Selling Task Force

..with the potential to economically empower 0.8 million women

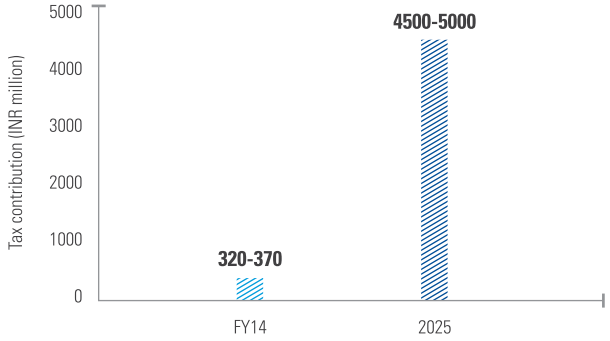
Growth in the number of female direct sellers



Source: KPMG in India Analysis, Industry Discussions, IDSA Report 2013-14, FICCI Direct Selling Task Force

..and the ability to contribute INR4.5-5.0 billion to the exchequer

Contribution to exchequer



Source: KPMG in India Analysis, Industry Discussions, IDSA Report 2013-14, FICCI Direct Selling Task Force

* Impact of GST has not been considered for the opportunity assessment of the industry and its contribution to the exchequer.

Challenges – Direct selling in India

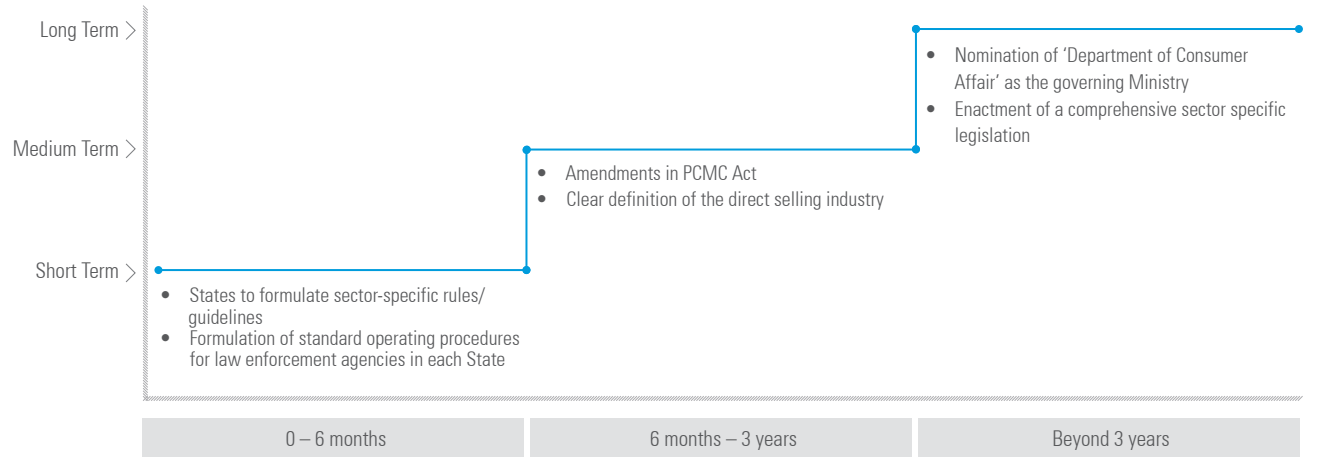
Currently, the direct selling industry faces a number of challenges. Similar to the traditional consumer industries, it faces challenges in setting up manufacturing facilities, dealing with import duties, etc. However, one of the most daunting challenges for the direct selling industry in India is a lack of clarity on governing regulations. Given this, direct selling companies are often mistaken for fraudulent pyramid/ponzi schemes.

To provide a conducive and sustainable operating environment in India for the companies operating in the direct selling industry, reforms are required ranging from immediate short term reforms in state-level guidelines or standard operating procedures for enforcement agencies, to long term measures of enacting a specific governing legislation for the sector or making an amendment to existing laws.

A separate policy framework for the direct selling industry will can help clear the blurred lines between ethical industry players and imitators and go a long way in building consumer confidence.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

We recommend the following road-map for some of the potential solutions that can be considered by the Government/ regulators in the coming future to help benefit this industry.



Source: KPMG Analysis, Industry Discussions, FICCI Direct Selling Task Force

1

Amendment in the Price Chits and Money Circulation Scheme (PCMCS) Act

Since the PCMCS Act does not explicitly address schemes which involve the genuine sale of products or services, some jurisdictions have attempted to read into those situations in the Act. Accordingly, amendments to the PCMCS Act are needed to make the distinction clear between direct selling including MLM plans involving the genuine sale of products and fraudulent pyramid money-circulation schemes.

2

Formulation of standard operating procedures

In order to do away with the prevailing operational uncertainty, an immediate action may be undertaken at the State level. This is development of standard operating procedures for the law enforcement authorities to be followed in cases where a complaint is filed against fraudulent MLM schemes. This ground level initiative shall help avoid undue harassment to genuine players of the industry and restore public confidence.

3

Formulation of state-specific guidelines

While the Centre evaluates the amendment of PCMCS Act, the need of the hour is for State governments to formulate specific guidelines to govern direct selling activities in their states. Such guidelines should address the underlying problems of information asymmetry between the business and potential customers, lack of consumer awareness and absence of certainty.

4

Need for a clear definition

There is need for a proper definition of the 'direct selling model' under preferably by a specific legislation in India. Moreover, given the numerous social as well as economic benefits of this specialised channel of distribution, direct selling should be given a separate 'industry' status.

5

Need for governing ministry and legislation

At present, direct selling falls under the purview of state legislation and is governed by various ministries/departments at the centre, state and local levels. The multiplicity of regulatory bodies has resulted in multiple regulations governing this sector. These should be streamlined for the smooth performance of this sector in the long run. One ministry could be nominated to govern direct selling companies, which could also provide for underlying regulations.

Source: KPMG Analysis, Press Trust of India, March 18, 2011 issue, Industry Discussions, FICCI Direct Selling Task Force

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Global direct selling market



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Direct selling is essentially the marketing of products and services directly to consumers in a person-to person manner, away from permanent retail locations

Direct Selling is a dynamic and rapidly-expanding channel of distribution for the marketing of products and services. While there is no universal definition of direct selling, different countries, associations and individuals have defined the sector differently. It can be broadly understood as 'selling of goods and services to consumers away from a fixed retail outlet, generally in their homes, workplace, etc., through explanation and demonstration of the product by the direct sellers'. Direct sales generally benefit from the explanation and demonstration of products made by an independent direct sales person to the consumer. Being a specialised channel of distribution, which is neither wholesale nor retail, it covers both business-to-business and business-to-consumers aspects.

Despite its differences, in many ways, direct selling is similar to traditional consumer goods retail. In both cases,

- the distributors/direct sellers, can earn a commission, when the sale of the product takes place
- earning of sales commission may be based on one's own sales as well as on the cumulative sales of the group built by the seller, similar to commissions in traditional sales environments.

Source: Discussions with National Law School, Industry Discussions, FICCI Direct Selling Task Force

Direct selling v/s Direct marketing

Direct Selling and Direct Marketing are often confused to be the same thing and are taken as interchangeable terms. Both terms are actually very different from each other and a clear understanding of the difference will help Direct Selling maintain its own identity.

The crucial difference between both the methods hinges on the mode of publicity that the firm uses to generate awareness in the market. While Direct Marketing uses one or more advertising mediums, Direct Selling relies direct engagement with the purchaser to generate a specific response or call to action that can be measured.

Direct Marketing is a type of advertising in which companies communicate directly to the customers through formats like online advertisements, direct mail, text messaging and telemarketing. Direct Selling on the other hand involves marketing and demonstration of a product or service directly to the customer usually through a personal contact/relationship with the salesperson.



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Direct selling is different from chit fund and ponzi schemes

Various forms of networking schemes

Globally, direct selling industry has undergone substantial changes since 1970's. Around that time, there was a proliferation of multiple new direct selling companies and one-to-one marketing became a common marketing technique. Unfortunately, the rise in legitimate MLM compensation plans was accompanied by a surge in pyramid schemes that played off the popularity of MLM plans or network sales and paid more attention to recruiting than selling of actual goods.

What is striking about these schemes is that while they are very old forms of fraud, modern technology vastly multiplied their potential for harming citizens across the globe. The Internet in particular offers pyramid builders a multi-lane highway to world-wide recruits in virtually no time. Further, globalisation coupled with newly emerging market economies provided a new outlet for pyramiding.

In this section, we have outlined the primary definitions of various forms of prevalent unfair trade practices and laid down certain parameters to distinguish between 'fly by night operators' and 'legitimate businesses'.



Pyramid selling, Chit fund or Ponzi schemes

Pyramid schemes

Pyramid schemes, prevalent in multiple forms, promise consumers/investors large profits based primarily on recruiting others to join their program, not based on profits from any real investment or real sale of goods. Two major signs that a product is being used in to disguise pyramid schemes are:

- Large payment required to join; and
- Compensation paid for recruiting without regard to end sales ('headhunting fee').

Ponzi schemes

Popularly known as 'Peter-to-Paul schemes, a Ponzi scheme is centered around continuous recruiting and the promoter generally has no product to sell and pays no commission to investors who recruit new 'members'. Instead, promoter collects payments from a stream of people, promising all the same high rate of return on a short term investment with no real investment opportunity.

Chit fund schemes

With no underlying product and based on more or less along similar lines like a Ponzi scheme, a chit fund is a kind of savings scheme under which a person enters into an agreement with a specified group of persons that every one of them shall subscribe a certain sum of money by way of periodical instalments over a definite period and that each subscriber shall, in his turn, as determined by lot or by auction or by tender or in such a manner as may be specified in a chit agreement, be entitled to the prize amount.

Though often misused by promoters, chit fund schemes are not always fraudulent and may be conducted by organised financial institutions within the letter of law.

Source: KPMG in India Analysis. 2015

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Direct selling business

There is no universal definition of direct selling. Globally, countries, associations and individuals have defined this sector differently.

The World Federation of Direct Selling Associations (WFDSA), which is the global direct selling body that has the membership of 60 nationals associations and one regional federation, defines direct selling as 'the marketing of products and services directly to consumers in a person-to-person manner, away from permanent retail locations'.

The Indian DSA defines direct selling as the 'marketing of consumer goods and/or services directly to customers, without involvement of conventional retail outlets, wherein sales happen face-to-face at home, workplace, parties or other group events, through explanation and demonstration'.

Varying from jurisdiction to jurisdiction, sales people may be called as distributors, representatives, consultants or various other titles. The diverse meanings assigned to the term 'direct selling' in other countries have been discussed in the next section of the report.

Source: WFDSA Website, Date: 22-Sep-2014

Though definitions vary, there are certain commonalities such as:

- **Non store retailing format**
- **B2B, B2C, Single level or multi-level**
- **Face-to-face explanation and demonstration**
- **May have websites or catalogues – products sold by direct selling only**
- **May offer free/personal sample testing facility – High quality products**

Key differentiators: Genuine direct selling schemes

- **No commission for 'upfront head hunting'**
- **No investment fee from new recruits**
- **With every down line created – Interaction with the customer is a MUST**
- **Does not require dealers to buy large non-returnable inventory**
- **Remuneration/ commission to distributors/ representatives linked to sale of products**



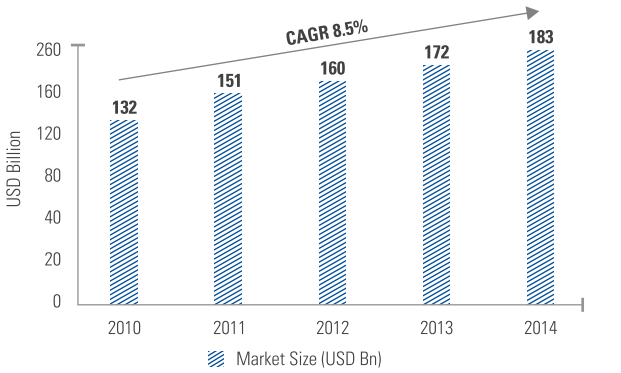
© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Global direct selling market is currently worth USD180 billion and employs around 100 million people world-wide

Global direct selling market

Global direct selling market size

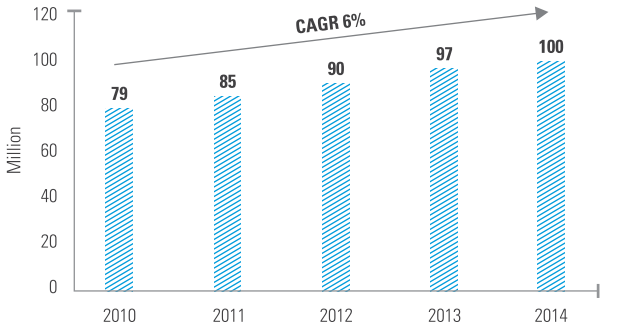
Direct Selling is a USD180 billion globally. The industry has witnessed an overall growth of 8.5 per cent over the past five years. The industry saw a robust growth of 19 per cent in 2011 over 2010, post which the industry grew at a lower rate of 5 per cent in subsequent years due to global economic slowdown. However, the long term growth prospects of the industry remain robust.



Source: WFDSA Website, Date: 22-Sep-2015

Number of direct sellers

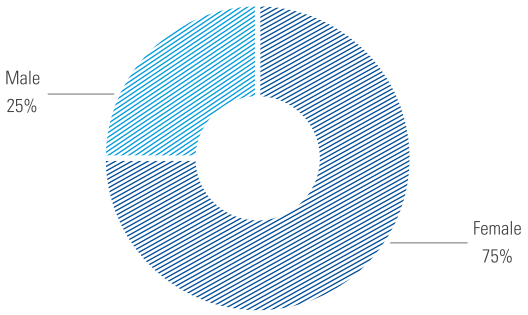
The direct selling industry benefits from in-person contact for the demonstration and sale of products and therefore provides business entrepreneurship opportunities for a large number of people. The opportunities in the industry has grown by a CAGR of 6 per cent in the last 5 years and the number of direct sellers have increased to 100 million direct sellers in 2014 from 79 million direct sellers in 2010.



Source: WFDSA Website, Date: 22-Sep-2015

Gender-wise participation in the industry

As of 2014, 75 per cent of females were part of the industry. Direct selling has given women, who found it difficult to work away from home, an alternative earning opportunity in their homes. Thus enabling them to maintain a work-life balance.



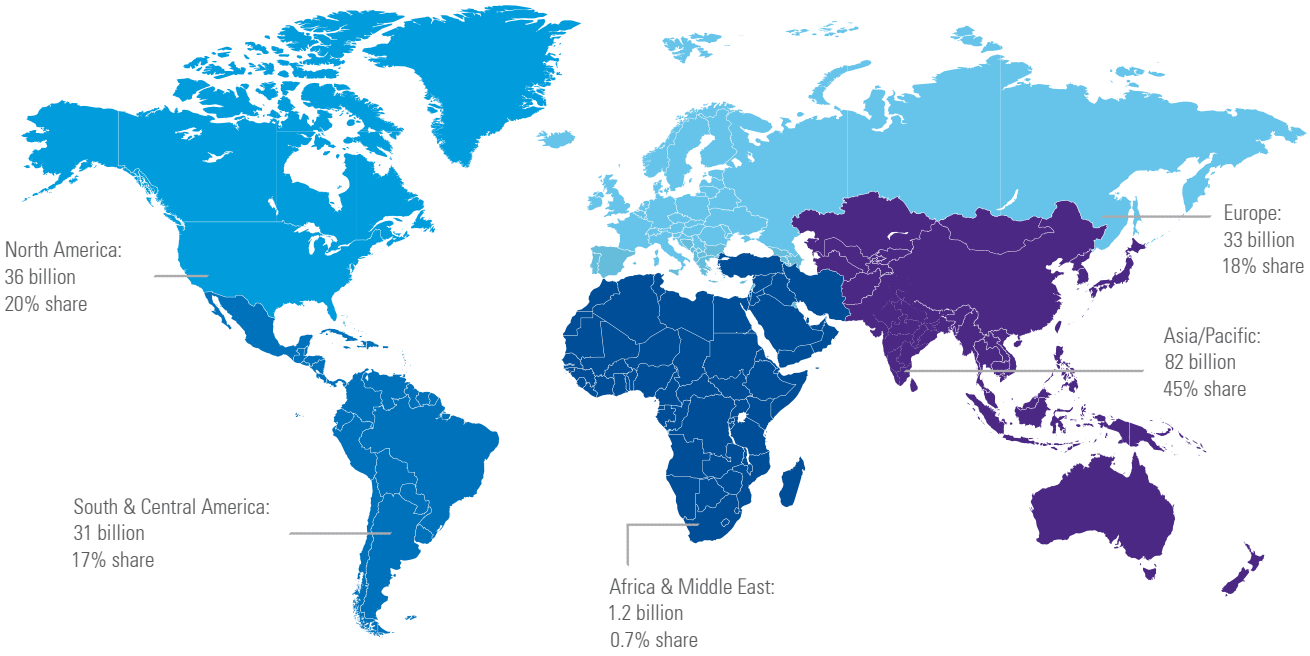
Source: WFDSA Website, Date: 22-Sep-2015



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Asia Pacific is the largest direct selling region in the world, followed by North America and Europe

Major regions, 2014



Asia Pacific

- Asia Pacific is the largest market for direct selling with a 45 per cent share in the global direct selling market. Asia Pacific has also been the fastest growing region in the world, growing at a CAGR of 8.4 per cent to reach USD 82 billion in 2014 from USD64 billion in 2011
- The direct selling industry in the region engages ~51 million people as direct sellers
- Japan, China, Korea, Malaysia, Taiwan, Thailand, Australia, Philippines, Indonesia and India are billion dollar markets in the region

Americas

- Americas accounts for 37 per cent share in the global market and engages ~33 million people as direct sellers
- USA and Canada are billion dollar markets in North America engaging 19 million people as direct sellers
- South & Central America has been growing at CAGR of 7.8 per cent between 2011 and 2014 . Brazil is the largest market in South & Central America accounting for 42 per cent share followed by Mexico, Colombia, Peru and Argentina which are also billion dollar markets

Europe, Middle East, Africa

- Europe accounts for 18 per cent share in the global direct selling market has grown at a CAGR of 3.4 per cent from 2011 to 2014 and engages ~14 million people as direct sellers
- Western Europe accounts for nearly 75 per cent of the total market in Europe. France, Germany, Italy, UK in Western Europe and Russia are billion dollar markets
- Middle East and Africa is a small market for direct selling accounting less than 1 per cent share of the global market

Source: WFDSA Website, Date: 22-Sep-2015, KPMG in India Analysis

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

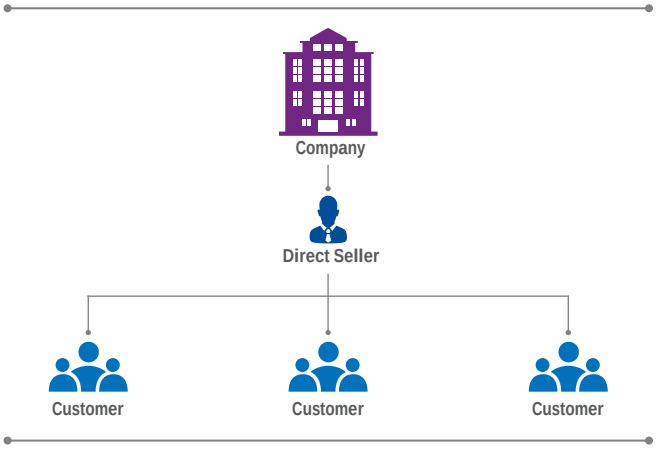
Single-level and multi-level marketing are the prevalent models in the direct selling industry

Operating model

Single-Level Marketing (SLM)

Single-level marketing rewards the sellers for their personal sales activity. They cannot sponsor any other distributorship or sales personnel. Income comes only in the form of a commission, or bonus, or retail markup, i.e., they receive payments through the sales they make .

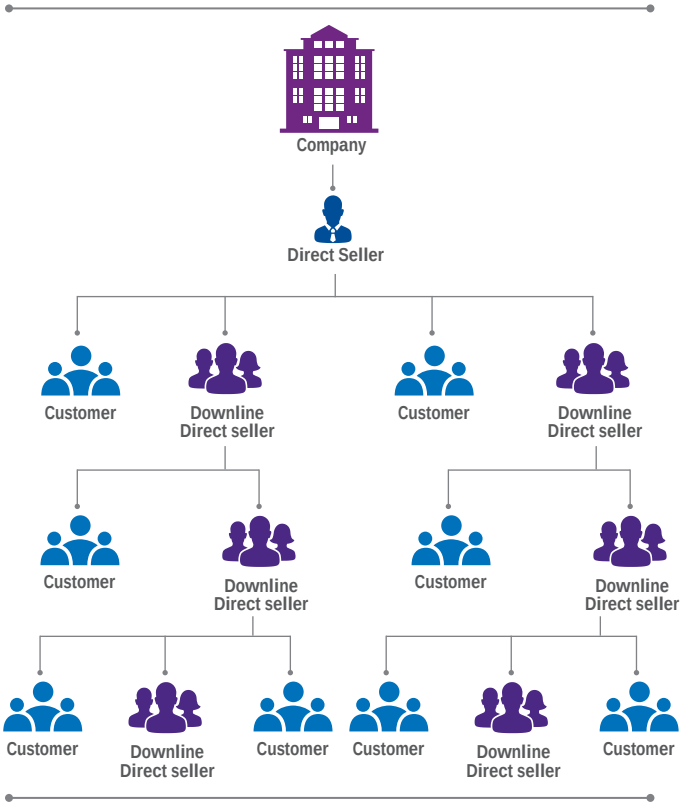
A direct seller buys products from the parent company and sells them directly to his or her customers. Home-based business people have been pursuing single level marketing for years. Single-level marketing is most suited for those sales people whose focus lies on the product and service.



Source: WFSDA, ICRIER, Direct Selling News, Industry Discussions, FICCI Direct Selling Task Force, KPMG in India Analysis, 2015.

Multi-Level Marketing (MLM)

In the MLM compensation plan, each direct seller recruited can potentially recruit new distributors and create a down line of direct and indirect distributors/sellers. Distributors purchase products to sell to the consumers. They receive commissions and bonuses on the sales made by them and the sales made by their downline direct sellers and retail markups.



Source: WFSDA, ICRIER, Direct Selling News, Industry Discussions, FICCI Direct Selling Task Force, KPMG in India Analysis, 2015.

The price of the product remains the same irrespective of the number of direct sellers in the downline chain.



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Person-to-Person selling is the dominant form of selling witnessed in the direct selling market

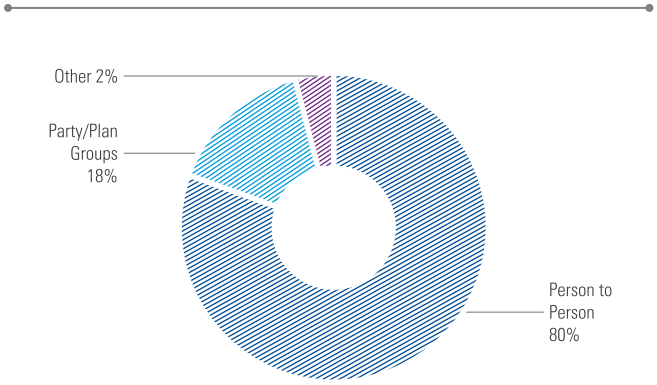
Methods used for selling

While some direct sellers may be employees of a direct sales company, authorised to act for the company in business matters, most direct sellers are independent business operators or self-employed – they enjoy the advantage of deciding when and how much time will be devoted to selling the company's products

Traditional Direct selling methods include:

- Person To Person Marketing
- Party Plan Groups

Person to Person is the most popular amongst direct selling companies followed by Party Plan Groups.



Source: WFDSA Website, Date: 22-Sep-2015

Person to Person (P2P)

Majority of the direct sales around the globe take place through person to person contact making. This method is most widely used by direct selling companies.

Person to Person direct selling can be defined as a one on one interaction between the sales person and the customer in which a product is promoted for sale by the former to the latter. This method of direct selling can use both single-level and multi-level marketing.

Party Plan Groups

The party plan is a method of direct selling in which social events are organised where products and services are promoted and offered for sale.

Direct selling through party plan mostly uses multi-level marketing. Sales people approach other people to host events during which the products are demonstrated. In return the host is given a part of the revenue from the goods sold. The sales person is paid a commission on the sales or on the sales made by the sales people recruited by him/her.



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Amway, Avon and Herbalife are the top three direct selling companies accounting for 20 per cent of the global direct selling market

Top 20 Direct selling players in the world

Rank	Company name	Country	Year founded	Revenue 2013 (USD Bn)	Markets	Distributors (Mn)	Employees ('000s)	Sales method	Compensation structure
1	Alticor (Amway)	USA	1959	11.80	100	3	21	P2P	MLM
2	Avon Products Inc.	USA	1886	9.95	100	6	36	P2P	MLM
3	Herbalife Ltd	USA	1980	4.80	91	3	7.5	P2P	MLM
4	Vorwerk & Co. KG	Germany	1883	3.70	76	0.6	12	P2P and Party Plan	MLM
5	Mary Kay Inc.	USA	1963	3.60	35	3	5	P2P and Party Plan	SLM
6	Natura Cosmetics SA	Brazil	1969	3.20	7	1.6	7	P2P	MLM
7	Nu Skin Enterprises Inc.	USA	1984	3.18	53	1.3	1.2	P2P	MLM
8	Tupperware Brands Corp	USA	1946	2.67	100	2.6	13.5	P2P and Party Plan	SLM and MLM
9	Belcorp Ltd.	Peru	1968	1.96	16	0.9	9	P2P and Party Plan	SLM and MLM
10	Oriflame Cosmetics SA	Luxembourg	1967	1.95	66	3.5	7	P2P	MLM
11	Primerica Inc.	USA	1977	1.27	2	0.1	2	P2P	MLM
12	Ambit Energy	USA	2006	1.20	1	0.25	0.6	P2P	MLM
13	Telcom Plus	United Kingdom	1996	1.10	1	0.05	0.7	P2P	MLM
14	Stream Energy (Ignite Inc.)	USA	2004	0.87	1	0.26	0.2	P2P	MLM
15	Yanbal International	Peru	1967	0.85	10	0.4	6	P2P	MLM
16	Miki Corp.	Japan	1966	0.78	3	NA	0.3	NA	NA
17	Thirty-One Gifts	USA	2003	0.76	2	0.12	1.7	Party Plan and Group Sales	MLM
18	Blyth Direct Sales Group	USA	1973	0.75	21	0.1	1.2	Party Plan and Group Sales	MLM
19	USANA Health Sciences	USA	1992	0.72	19	0.27	1.4	P2P	MLM
20	CAN Inc.	USA	1993	0.70	23	0.2	1.5	P2P	MLM

Source: Direct Selling News Website, 12 August 2015, KPMG in India Analysis, 2015.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Direct selling market in India



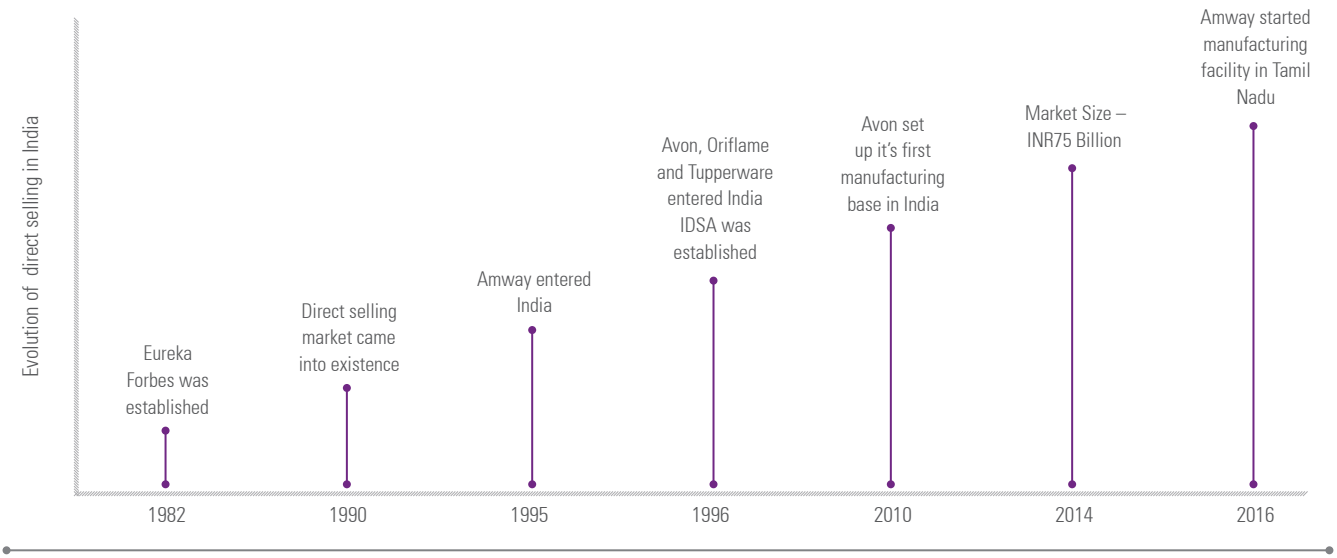
© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Direct selling market in India took off in 1990's with the influx of the large global direct selling companies looking to tap the Indian opportunity

Direct selling market in India

In India, the direct selling industry commenced in 1982 when Eureka Forbes was established as a result of a joint venture between Shapoorji Pallonji Group's Forbes & Company Ltd. of Mumbai and Electrolux of Sweden. The industry came into existence in early 1990s soon after the country opened up to the global market.

The industry witnessed major growth post liberalisation with many global players entering the Indian market. Amway was one of the first major global direct selling companies to enter India in the year 1995. Which was followed by companies like Avon, Oriflame and Tupperware in 1996. Around the same time Modicare was one the first few Indian companies to adopt this channel of distribution.



Source: IDSA, PHD Chamber, ICREAR, Direct Selling News, Industry Discussions, FICCI Direct Selling Task Force, KPMG in India Analysis, 2015

Even though most Indian direct selling companies initially started in South India, today many of them have pan India operations. In terms of revenue generated Maharashtra, Tamil Nadu, Kerala and Andhra Pradesh have the highest shares. Recently, the industry has witnessed greater growth in Eastern part of the country and in many Tier 2 and Tier 3 cities with direct selling companies trying to reach out to customers in markets which have remained untapped thus far.

The direct selling market in India is a INR75 billion market today and is dominated by the organised players contributing ~95 per cent to the market. The market has grown to become a key channel for distribution of goods and services in the country, specially for health and wellness products, cosmetics, consumer durables, water purifiers and vacuum cleaners. However, it is still undeveloped as compared to global peers and the variety of brands and products available in the country are lower than those in other economies.

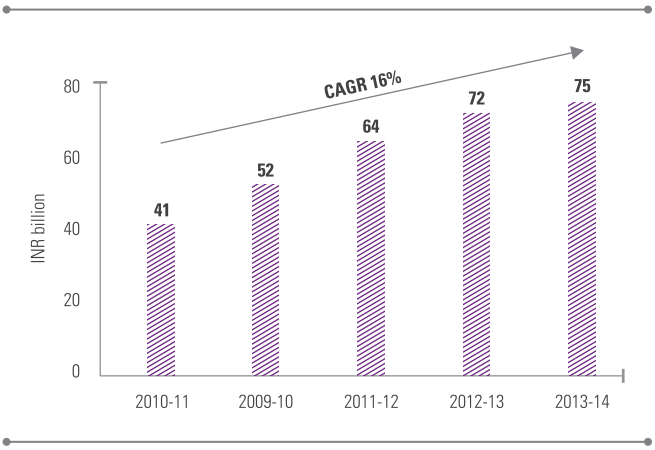
Going forward, the growth of the industry is likely to be majorly driven by expanding markets and a strong consumer base increasingly looking for quality products that add value, and are willing to pay a premium.

However, currently the industry is facing many challenges in India. India lacks a systematic policy that clearly defines the regulatory framework of the industry. There is no clear definition for legitimate Direct Selling to differentiate it from Ponzi/Pyramid Schemes attempting to disguise themselves as Direct Selling structures. As a result of the lack of clarity, the number of fraudulent activities in the industry has increased and legitimate Direct Selling is being confused with Ponzi/Pyramid Schemes.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Direct selling market in India has grown at a CAGR of 16 per cent over the last five years from INR41 billion in 2009-10 to INR75 billion in 2013-14

Direct selling market size in India



Source: IDSA Reports on Direct Selling 2009-2014, PHD Chamber, ICREAR, Direct Selling News, Industry Discussions, FICCI Direct Selling Task Force

The direct selling market in India has grown at a CAGR of 16 per cent over the past five years to reach INR75 billion today. The market grew at a lower rate of 4 per cent in 2013-14 due to the slowdown in the industry. Lack of clarity on state regulatory issues and unclear laws pertaining to the industry have significantly impacted the working environment of the major industry players.

The Indian Direct Selling Industry is well poised to occupy an important position in the international and domestic markets. However, there are many issues and challenges which remain bottlenecks for the growth of Indian Direct Selling Industry.

First and foremost are the activities of fraudulent fly-by-night operators who are operating under the garb of Direct Selling business. Another challenge faced by the industry is the absence of central guidelines and regulations for the direct selling industry. India lacks a systematic policy that clearly defines the regulatory framework of the industry. There is no clear definition for legitimate Direct Selling to differentiate it from Ponzi/Pyramid Schemes attempting to disguise themselves as Direct Selling companies. As a result of this lack of clarity, the number of fraudulent activities in the industry have increased and legitimate Direct Selling is being confused with Ponzi/Pyramid Schemes.

In states such as Andhra Pradesh, Telangana and Kerala, the direct selling business has been impacted due to lack of regulatory clarity. There is a need for the central as well as the respective state governments to take the lead in coming out with a comprehensive policy for the industry, which would enable the industry to grow multifold over the next



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

North india is the largest market for direct selling followed by the South

Region-wise direct selling market

North

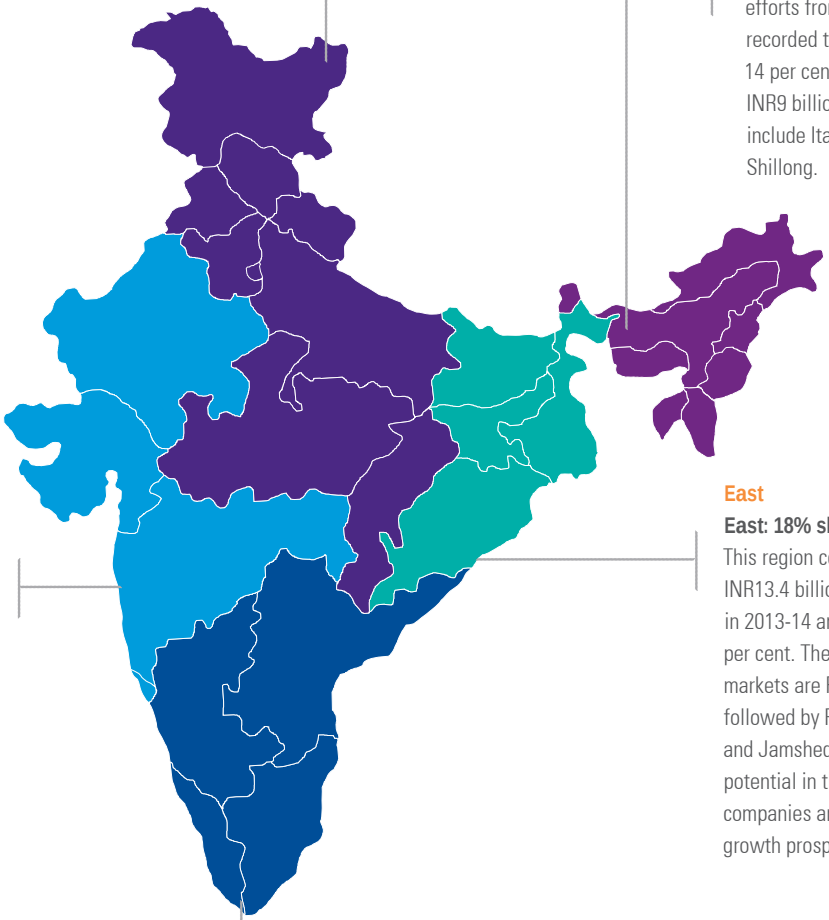
North: 29% share; 12% growth

North is the largest region by market size and accounted for INR22 billion in 2013-14. Lucknow, Ludhiana and Delhi generate the maximum sales in the region. Other key cities include Bhopal, Chandigarh and Allahabad.

North East

North East: 12% share; 14% growth

North East is currently the smallest market for direct selling. However, over the past few years, growth has picked up in the region with efforts from industry players. It has recorded the highest growth rate of 14 per cent in India with revenue of INR9 billion. Key cities in the region include Itanagar, Guwahati and Shillong.



West

West: 16% share; 11% growth

West is a relatively smaller market compared to Northern and Southern regions. Direct selling sales in this region are driven by Mumbai and Jaipur followed by other key cities such as Ahmedabad , Surat and Pune. Collectively, the region recorded revenues for INR12 billion in the year 2013-14.

East

East: 18% share; 10% growth

This region contributed around INR13.4 billion to the gross revenue in 2013-14 and grew at around 10 per cent. The largest direct selling markets are Patna and Kolkata followed by Ranchi, Bhubaneshwar and Jamshedpur. With unexploited potential in the eastern region, companies are optimistic about growth prospects in the future.

South

South: 25% share; 13% decline

South holds the second highest share for the direct selling industry and accounts for INR19 billion in revenue in 2013-14. However its share has fallen along with a negative growth rate in recent times given the un-favourable business environment (lack of regulatory clarity leading to litigation on direct selling companies). Bangalore, Chennai and Hyderabad are the largest direct selling markets in the South.

Source: IDSA, KPMG in India Analysis, 2015

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

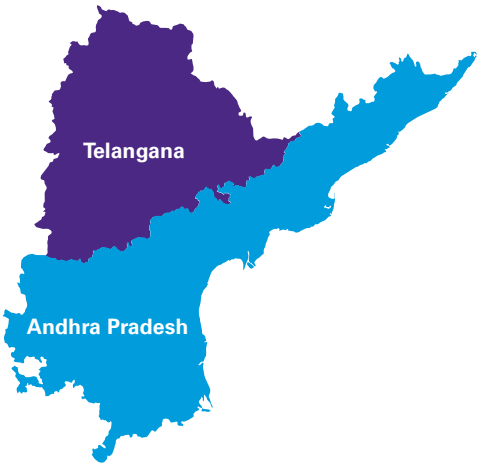
Direct selling market in Andhra Pradesh and Telangana



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Direct selling market in Andhra Pradesh and Telangana has grown at a CAGR of 15 per cent over the last four years to reach ~INR3.5 billion in 2013-14

State overview



Particulars	Remarks
State	Andhra Pradesh & Telangana
Capital	Hyderabad
Population (2011 census)	84.6 million
GDP per capita (FY14)	INR176,758
Direct selling market (2013-14)	INR3.3 – 3.5 billion
No. of direct sellers (2013-14)	0.27 million – 0.29 million
Market Growth potential (2025)	INR48- 50 billion

Source: IDSA, Indiacensus, industry discussions and KPMG in India analysis, 25 Sep 2015

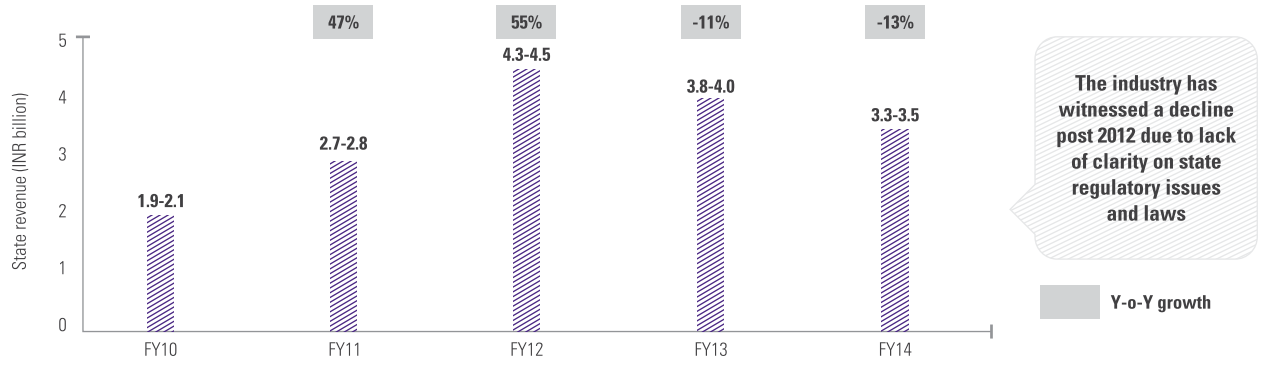
With a high rate of economic development, the FMCG market is well developed in Andhra Pradesh and Telangana, especially in urban markets like Hyderabad, Vijayawada and Vishakhapatnam. Organised retail is also a fast growing sector with the development of many malls in the state. With the rising demand for FMCGs, the state should witness potential growth of the direct selling industry as well.

The direct selling market in Andhra Pradesh and Telangana is worth approximately INR3.3-3.5 billion[1] today and is dominated by international companies including Amway, Avon, Herbalife and Oriflame.

The direct selling industry spans across a diverse range of products. However, specialised products requiring one to one interaction and demonstration with the customers – health & wellness products, cosmetics, personal care products – dominate the direct selling market.

As a result, over the last decade Andhra Pradesh and Telangana have provided many Direct Selling companies the opportunity to invest in them.

Direct selling market size in Andhra Pradesh &Telangana



Source: IDSA, industry discussions, FICCI Direct Selling Task Force and KPMG in India analysis, 25 Sep 2015

1. KPMG in India analysis, 2015

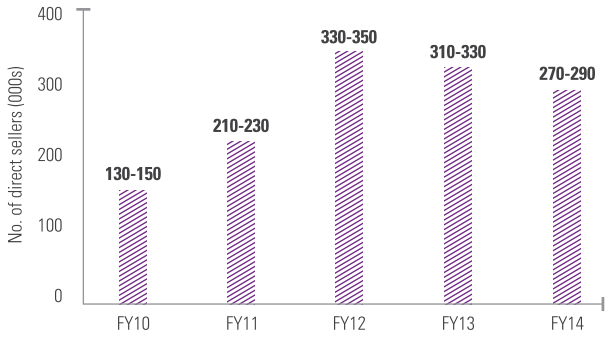
© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Direct selling market has generated a large number of self employment opportunities in Andhra Pradesh and Telangana with 60 per cent of the total workforce comprising of women

The direct selling market grew at a CAGR of 15 per cent from 2010 to 2012 and witnessed a strong year- on –year growth from 2011 to 2012 to reach revenues in the range of INR4.3 – 4.5 billion. Lack of clarity on state regulatory issues and unclear laws pertaining to the industry significantly impacted the working environment of the major industry players, which resulted in the industry shrinking by 12 per cent from 2012 to 2014.

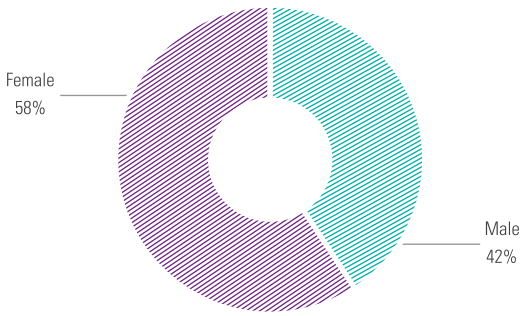
Self employment opportunities

Direct sellers growth



Source: IDSA, Industry discussions, FICCI Direct Selling Task Force and KPMG in India analysis, 2015

Industry dominated by women in terms of direct sellers



Source: IDSA, Industry discussions, FICCI Direct Selling Task Force and KPMG in India analysis, 2015

As of FY14, the total number of direct sellers in Andhra Pradesh and Telangana stood in the range of 0.27 million to 0.29 million. The count of direct sellers grew by 42 per cent between 2012 and 2013, however, with increasing regulatory concerns and counts of police cases, there was no growth in terms of numbers of direct sellers between FY13 and FY14.

Women accounted for ~60 per cent of the total direct sellers workforce. The industry promotes women empowerment and encourages self-employment in the state.

With a rising cost of living, it has been noticed that Direct Selling business is not only popular among women but also among men. The share of men (Direct Sellers) has increased from 38 per cent in FY12 to about 42 per cent in FY14[2]. Indian men are looking at this sector as a supplementary earning opportunity, as the consumption basket of the families has swelled up over the years.



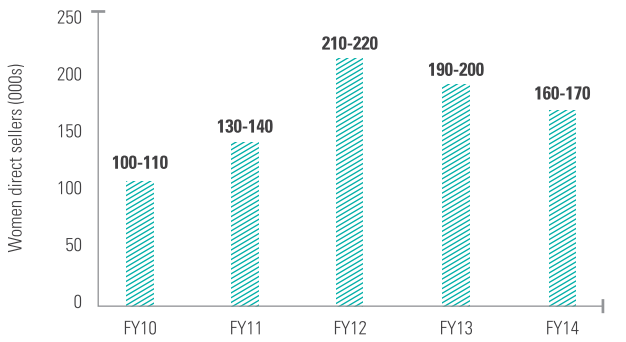
2. KPMG in India analysis, 2015

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Benefits - Socio economic impact of the industry

Socio-economic benefits of direct selling in the state

1 Self-employment opportunities and women empowerment



Source: IDSA, Industry discussions, FICCI Direct Selling Task Force and KPMG in India analysis, 2015

The industry offers self-employment opportunities to a large number of people, especially women. Direct selling helps give women the flexibility to manage their time and balance their work and personal lives. The industry also offers women financial independence and the improved ability to take care of their families. The industry in FY14 provided self-employment to more than 0.16 million female distributors.

Also many companies work towards the empowerment of women. In 2008 Avon India in association with Avon foundation started the Breast Cancer Crusade to increase awareness of the disease in the country[3].

2 Increase in product reach to Tier II, III & rural areas

Direct Selling companies are now expanding their reach and are trying to enter Tier 2 and Tier 3 cities, and rural areas of Andhra Pradesh & Telangana, providing the consumers with knowledge about different products and services. Since high quality products are now made available at affordable prices, the demand for these products has increased and has resulted in increase in number of products sold through the direct selling channel.

Increased focus on the agricultural sector would boost rural incomes, and would provide better growth prospects for direct selling companies going forward.

Geographical expansion to reach Tier II, III & rural areas

Many companies including Modicare and Amway are expanding into tier II , tier III and rural areas. The strategy adopted by the direct selling market in India to increase rural focus involves the direct selling companies to forgo their premium tags and target mass segment by producing products sachets. This marketing method has effectively enabled companies to build trust in smaller towns and villages..

Modicare

Modicare doubled its salesforce to 2.5 lakh direct sellers in 2011 and invested INR50 crore to develop products and open more centers across the country, for penetrating the tier II, III and rural market.

It launched a new range of products under the brand names 'Smooth' and 'Velocity'. These products like shaving lotion, after shave, body spray among others were offered by the company at a lower price range compared to similar products sold by other companies.

Amway

To offer more convenient prices to its customers, Amway has launched 4-ml sachets of Satinique dandruff control shampoos and conditioners, amongst others, under its personal care category. Pricing the product at INR5, the company is trying to providing its clientele products in a lower price bracket. Along with sachets, the company is coming out with 2-in-1 products, such as combined shampoo and conditioner samples to promote its products.



Source: IDSA, Industry discussions, FICCI Direct Selling Task Force and KPMG in India analysis, 2015

3. Industry discussions

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Benefits - Socio economic impact of the industry

3 Sourcing from SMEs leading to growth and technology percolation

Many direct selling companies in India outsource their manufacturing process to contract manufacturers which are generally Micro, Small and Medium Enterprises (MSME) to produce products domestically.

As of 2011, ~2/3rd of the products sold by direct selling companies were sourced through MSMEs.

In most cases, the direct selling companies impart the manufacturing know-how, technology and processes to enable the SMEs to produce world-class products. Direct selling companies also invest in providing the right equipment and machines to the SMEs for production.

India's Direct Selling industry is making an important contribution to the 'Make in India' campaign, by accelerating the country's manufacturing sector. Direct Selling is a person-centered industry which plays an important role in employment and skills development. According to the statement, the industry's MSMEs have also made important contributions to the development because these companies are outsourcing their manufacturing.

Only 30 per cent of the products are imported by the Direct Selling industry in India while the remaining 70 per cent are manufactured through SME contracts locally.

Case study: Sarvotham Care

Sarvotham Care, a small scale enterprise started its operations in 1996 in Hyderabad, wherein they were involved in pharmaceutical formulations.

After Amway got approval from India's Foreign Investment Promotion Board in 1996 to invest in Indian operations, Sarvotham Care got in touch with Amway in 1997 for manufacturing Amway's home care range. Amway helped Sarvotham Care in bringing its production facilities and skills to international standards through the transfer of manufacturing know-how and processes for the indigenous production of Amway's product range. Soon, Sarvotham Care expanded into personal care products as well.

Today, Sarvotham Care produces 85 per cent of Amway's product for the domestic market. The company has also grown multi-fold from a revenue of INR15 crore and 20-25 employees in 1997 to a revenue of over INR350 crore employing 500-600 people today. In addition, the company has also grown to become a supplier for other major companies including GSK, Gillette and P&G.

Just like Amway, many other direct selling companies have helped in steering the progress of the small and medium-scale enterprises in India. Along with the transfer of international standard technology, SMEs were benefited from the expert guidance.

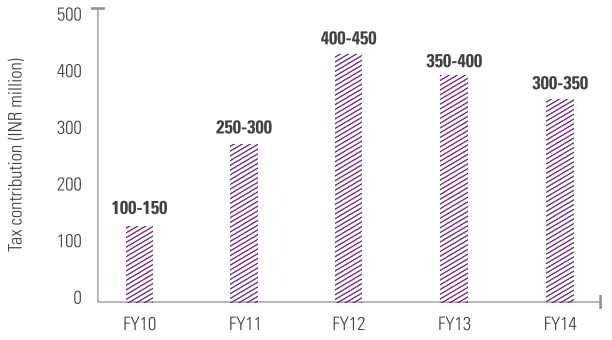
Source: IDSA, Industry discussions, FICCI Direct Selling Task Force and KPMG in India analysis, 2015



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Benefits - Socio economic impact of the industry

4 Contribution to the exchequer



Source: Industry discussions, FICCI Direct Selling Task Force and KPMG in India analysis, 2015

The operating model for direct selling generates tax contributions to the government across its value chain. Total indirect tax contribution by direct selling industry to the government in FY14 alone is estimated to be in the range of INR300-350 million. This includes indirect tax contributions through import duties, VAT and service taxes. Total indirect taxes contributed to the state increased significantly from ~INR100-150 million in FY10 to INR400-450 million in FY12, however, with increasing regulatory concerns and lack of clarity, the revenues declined between FY12 and FY13 which subsequently witnessed a ~10 per cent decline in the taxes contributed during the same period.

5 Contributions to social causes

The direct selling industry has made notable contribution to social causes.

Most companies contribute up to 1 per cent of their revenue to social change. Contributions from direct selling companies in India are focused to social areas like health and human services, environmental protection, women empowerment and children protection and education rights.

Avon set up the Breast Cancer Crusade to raise awareness about the disease in India. The Amway Opportunity foundation currently has two projects – National Project for the Blind and Project Sunrise providing education opportunities to the underprivileged. The Herbalife Family Foundation aims at providing good nutrition to children in the country[4].

Direct selling companies under FDSA (Federation of Direct Selling Association) have also played an important role in conducting several CSR campaigns such as eye donation camps, child education, setting up sanitation facilities in various villages, organising social meals, donation of clothes, helping people in blind schools and blood donation camps.

4. Industry discussions



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Direct selling opportunity in Andhra Pradesh and Telangana's potential in 2025



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

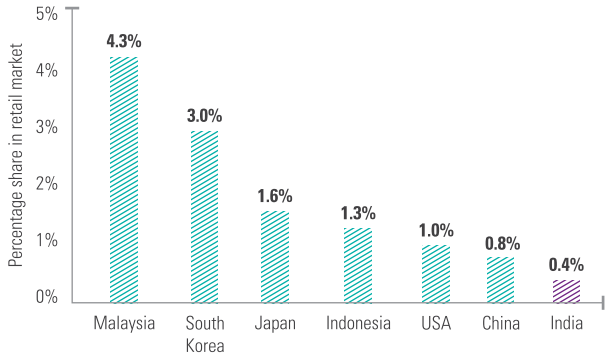
Driven by increasing share of middle income households and potential of increasing penetration, the direct selling market in has immense growth potential

Direct selling penetration - Global comparison

In China, the direct selling industry has flourished 2006 onwards and has grown significantly over the past years. Currently China's industry penetration stands at twice that of India at 0.8 per cent.

Other Asian markets like Indonesia, Japan and South Korea have much higher direct selling penetration levels. Malaysia has the maximum direct selling penetration in Asia with 4.3 per cent.

India's direct selling penetration is the lowest among comparable economies at ~0.4 per cent of the retail sales. Given its under-penetration in global comparison, it has a significant potential to growth going forward.

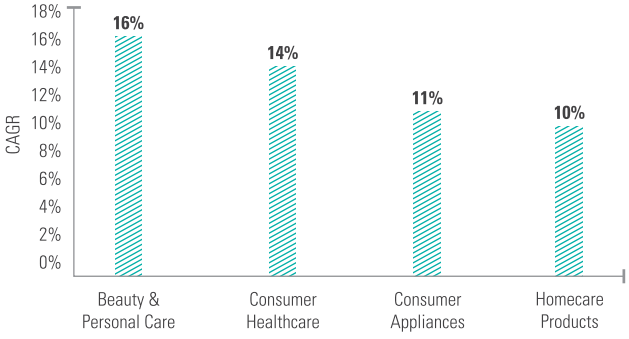


Source: Euromonitor 26 August 2015

Growth in consumer markets

The overall industry growth in all the key categories of direct selling such as health and wellness, cosmetics & personal care, household goods, and others is likely to fuel direct selling growth.

Most of these categories, which are key contributors to the direct selling industry are projected to grow at 10-15 per cent.



Source: Euromonitor 26 August 2015, BCG Report 'The Tiger Roars, Capturing India's Explosive Growth in Consumer Spending', 2012, KPMG in India analysis, 2015

Direct selling market potential in Andhra Pradesh and Telangana (INR billion)



With an expected growth in the consumer markets, and increased penetration of direct selling channel, the direct selling market has the potential to reach a

INR50 billion by 2025

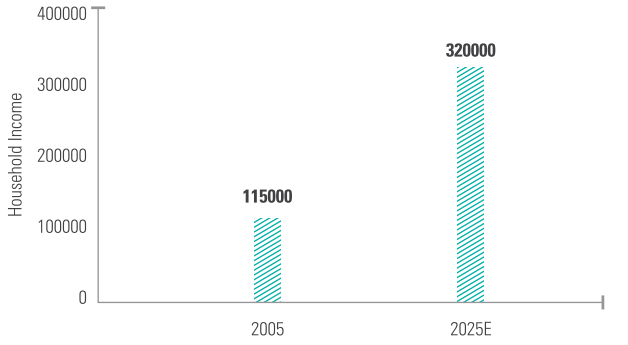
Source: Euromonitor, BCG Report 'The Tiger Roars, Capturing India's Explosive Growth in Consumer Spending', 2012, KPMG in India analysis

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Growth drivers/Key trends

1 Increasing personal disposable income

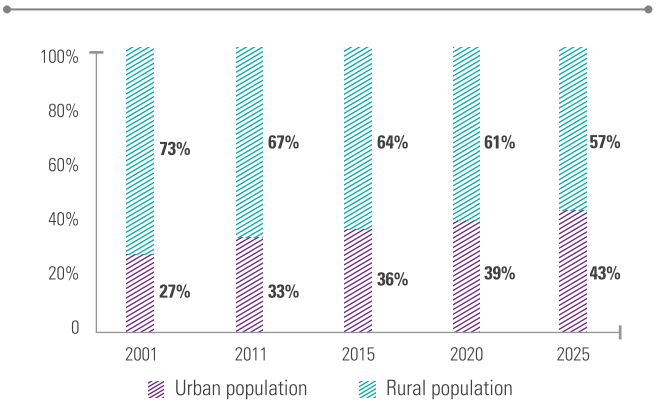
- Driven by robust GDP growth, the Indian household income is likely to triple by 2025, from INR115,000 currently to INR320,000 (approx.)
- Due to a rise in employment rate, disposable incomes has also increase resulting in improving the sales of the goods and services across the direct selling industry.



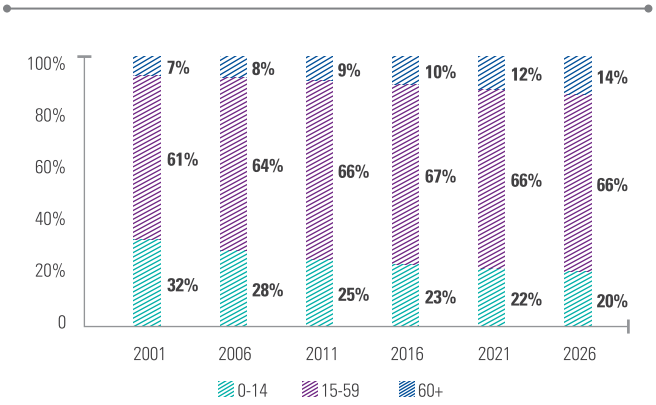
Source: EIU Indiastat 5 October 2015

2 Urbanisation and lifestyle changes

- In 2011, about 33 per cent of Andhra Pradesh's population resided in urban areas, which is expected to see an increase and reach to 39 per cent in 2020 and 43 per cent in 2025.
- Urbanisation is likely to have a positive impact on lifestyle of people as they will have more exposure to better quality products and services.
- Also along with rapid urbanisation, by 2025 a higher share of the population is expected to shifts towards the workable age group. Convenience and improvement of lifestyle should trigger a demand for direct selling products specially-packaged food, cosmetics and household appliances.



Source : Indiastat 5 October 2015 and KPMG in India analysis



Source : Indiastat 5 October 2015 and KPMG in India analysis

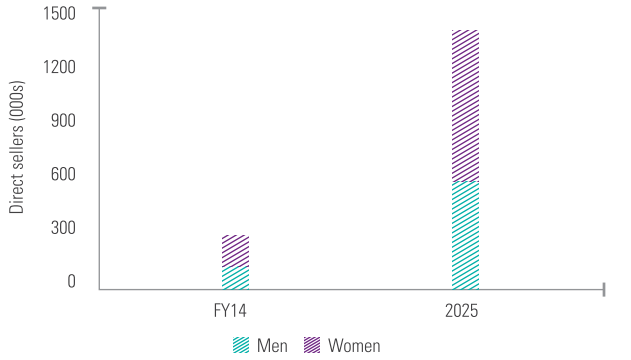
3 Increasing reach of the direct selling industry

- Direct Selling companies are now expanding their reach and are trying to enter Tier 2 and Tier 3 cities, and rural areas providing the consumers with knowledge about different products and services.
- Maintaining good quality at affordable prices, demand for these products has increased and has resulted in increase in number of products sold through the direct selling channel.
- Increased focus on the agricultural sector would boost rural incomes, and would provide better growth prospects for direct selling companies going forward.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The industry has the potential to reach INR5,000 crore and provide self-employment opportunities to more than 1.3 million people by 2025

1 Self-employment opportunities

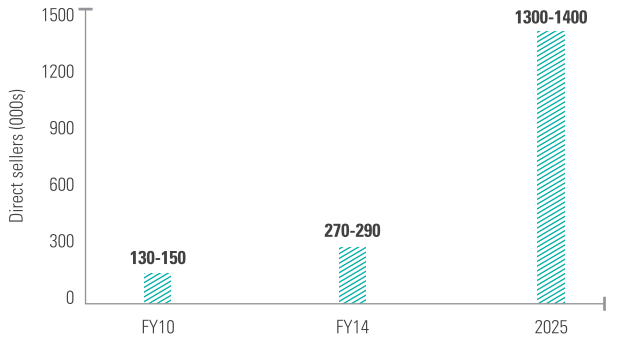


Source: Industry discussions and KPMG in India analysis

- The growth of the direct selling industry is likely to be driven by on-ground direct sellers. Considering global benchmarks for the industry, the industry can potentially engage direct sellers in the range of 1.3 million to 1.4 million by 2025.

2 Increase in self-employment opportunities for the female population

Direct sellers growth and potential



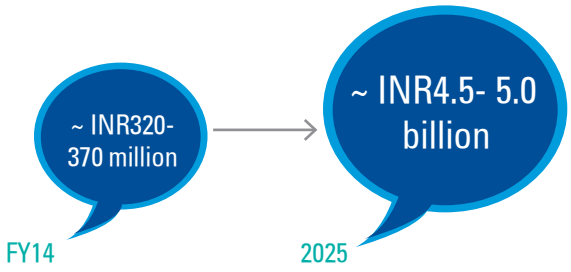
Source: Industry discussions, FICCI Direct Selling Task Force and KPMG in India analysis

- The direct selling industry has traditionally had a higher participation from women. Considering prevailing trends, by 2025, the industry can potentially engage over 0.8 million women as direct sellers providing additional income opportunities to the households.

3 Industry contribution towards Social responsibility

- In August 2013, the Indian parliament passed the Indian Companies Act, 2013 (the 'New Act'), which replaced the Companies Act of 1956. The New Act has imposed compulsory corporate social responsibility obligations (CSR) upon Indian companies and foreign companies operating in India. Companies with a turnover of INR10 billion or net profit of INR50 million or more have to spend 2 per cent of their net profit for the preceding three years on CSR. With the New Act in place the direct selling industry's contribution towards CSR is expected to grow significantly.
- The industry is expected to contribute huge sums of funds towards CSR activities by 2025 annually (considering that 50 per cent revenues will be generated by companies falling under the requirements of the Act). Besides the mandatory requirement, many other direct selling companies contribute significantly towards CSR.

4 Contribution to Govt. Revenue



Impact of GST has not been considered for the opportunity assessment of the industry and its contribution to the exchequer.

Source: Industry discussions, FICCI Direct Selling Task Force and KPMG in India analysis

- Considering the market potential and future growth of the industry to approximately INR50 billion in 2025, the contribution to the government's revenue in the form of indirect taxes is also expected to reach ~INR4.5-5 billion by 2025.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Challenges faced by the industry



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.



The direct selling industry, similar to the larger consumer industries faces issues of counterfeits and general difficulty in doing business in India. However, our interaction with the industry participants suggests that the biggest challenge the industry faces today is that of regulatory uncertainty and lack of legislative support in recognition of the rightful industry.

The Indian Direct Selling Industry is well poised to occupy an important position in the international and domestic markets. However, there are many issues and challenges which remain bottlenecks for the growth of the Indian direct selling industry.

Specific Industry Challenges

Regulatory Uncertainty

The industry is adversely affected by the lack of a proper legal framework which is compromising the growth of the direct selling industry. There is no systematic and standard policy on direct selling that is based on the constitutional structure. As a result, many authorities have booked direct selling companies for unlawful activities as under the PCMCS Act. The Act, which was enacted much before the advent of direct selling in India, does not clearly distinguish between rightful direct selling businesses from malicious money circulation schemes. Under the PCMCS Act customer complaints are acted upon as criminal offenses and gives investigating officers the power to arrest and seize company assets as well as arrest key individuals. This creates negative image of the industry in the mind of participants and potential participants, who as a result do not realise the benefits of the direct selling business.

Apart from the ambiguity in PCMCS Act, there are many other regulatory issues including a lack of definition and separate provisions for the industry, which adversely affect the industry.

The regulatory challenge for the industry along with a potential solution roadmap has been discussed in detail in the next section.

Other industry challenges

Counterfeit Products

Direct selling products should not be sold through retail stores. However, it has been seen that, many retailers become direct sellers and start off by loading the products to the customers through retail outlets. This leakage of products through traditional retail channels is contradictory to the very nature of direct selling and needs to be adequately addressed. This channel also encourages the sale of counterfeit products which affect the brand.

Difficulty in setting up manufacturing facilities

Most larger direct selling companies in Andhra Pradesh and Telangana are renowned MNCs. However, due to rigid labour laws and poor infrastructure, many of these have found it difficult to set up their own manufacturing facilities in the state. All states in India have different regulations and there is no centralised federal system, making the process of getting clearances costly and time consuming.

High import duties

Many ingredients for the industry products are imported. Higher import duties add to the price of the product and as a result make them more expensive for the final consumer adversely affecting the demand for such products as they are available at lower prices in international markets.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The regulatory challenge and the way forward



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Current regulatory environment in Andhra Pradesh and Telangana

The biggest challenge that the industry faces today is that of regulatory uncertainty, both at the Central and the State level, and lack of legislative support in recognition of the rightful industry.

In Andhra Pradesh and Telangana, there are no State specific rules or guidelines governing direct selling activities. However, direct selling companies have been allegedly tagged along with fraudulent schemes under the Prize and Chits Money Circulation (Banning) Act, 1978 ('PCMCS') by the law enforcement authorities of the State.

The State judiciary and regulators have alleged that some of the companies are engaged in direct selling conduct 'money laundering activities' by promoting or conducting a scheme for making quick and easy money. In the wake of these allegations, there have been instances of top managerial person of a direct selling company being remanded to custody. Local authorities have stalled the operations of these direct selling companies and caused irreparable damage to their brand reputations. This regulatory challenge has lead to business uncertainty in India, with an added risk of harassment and business disruption.



The Prize and Chits Money Circulation (Banning) Act, 1978

The PCMCS Act was legislated in 1978 to regulate and ban fraudulent pyramid and ponzi schemes prevailing in the country – which benefit primarily the promoters and do not serve any social purpose. The Section 2(c) of the PCMCS Act, which provides an inclusive definition of 'money laundering schemes', emits a clear mandate of this stringent law, that prize chits, money circulation schemes, by whatever name they may be called – are to be banned.

It is imperative to note that PCMCS is an archaic legislation which was enacted around 40 years ago when Indian markets had not even experienced any penetration by direct selling companies.

Having said the above, though the provisions of the PCMCS Act do not explicitly exclude or deal with businesses which involve genuine sale of products or services via the direct selling mode. The primary intent of this statute is to interdict schemes having no public value and designed to lure a chain of innocent investors to loose their money.

However, during last few years, some Indian government authorities have, on a mistaken understanding of direct selling model, taken the view that models of direct selling companies are akin to pyramid based financial and money circulation schemes banned under the PCMCS Act. Especially in Andhra Pradesh and Telangana, law enforcement authorities have take such stand.

Applying the principles of legal interpretation and construction, read with the pragmatic legislative intent behind the enforcement of this statue, conflation of genuine direct selling companies with pyramid and Ponzi schemes is a clear case of confusing identity. (Detailed analysis of the real legislative intent of the PCMCS Act, 1978 is enclosed as Annexure 1).

Therefore, the differences in interpretation regarding the applicability of the PCMCS Act has created formidable hardship for genuine players operating in this Industry. The law enforcement authorities have also been oblivious of the fact genuine direct selling companies have been investing significant amount in manufacturing and research and development costs, deal in high quality products- usually globally accepted brands, provide after sales services, redress distributor/ consumer grievances on a timely basis. In addition to significant capital investment, the distributors engaged in selling of their products are paid commission based on quantum of sales and while the unsold inventory is bought back in case of no eventual sales.

It is in this backdrop that the need to confer regulatory clarity and certainty direct selling companies with legitimate businesses, arises so as to ensure that they are not conflated with fraudulent pyramid and Ponzi schemes.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Current regulatory environment in Andhra Pradesh and Telangana

Multiplicity of regulations

The direct selling sector in India has a quasi-federal governance structure. The Constitution of India has demarcated the areas of jurisdiction areas of jurisdiction for the Central Government (Union List), State Governments (State List) and joint administration for the central government (concurrent list).

According to Indian constitution, wholesale and retail trade fall under the purview of state governments. Since direct selling, as defined in NIC 2008 classification, is a part of non-store retail format, it falls under state legislation. However, this sector is also closely monitored by different ministries/departments of the central government.

As on today, multiple statutes relating to consumer protection, labelling of products, food safety and standards, administrative laws both at the Central and State level regulate the direct selling sector in India in a piecemeal fashion. This complex maze of multiple regulations is further complicated by the misapplication of PCMCS Act.

Therefore, one of the major challenge a faced by direct selling companies in India is that they have to abide by and ensure compliance with over 30 odd regulations with no nodal government department so far. This involves significant time, effort and cost, thereby adding to the difficulties of this promising sector in India.

Definitional issues

The lack of definitional clarity is another major issue impacting the growth of direct selling industry.

Contending that the absence of a precise definition of direct selling is a primary reason for confusion, experts have often drawn inferences from three different perspectives - (1) legislative; (2) operational; and (3) statistical.

Legislative definition

Given that there is no legislative definition of direct selling in India, on certain occasions the definition of a direct selling scheme has been adopted from statutes prevalent in other countries across the globe viz. Malaysia, the U.S., U.K., Singapore, etc. However, apart from persuasive value such definition(s) have no relevance in the Indian context.

Operational definition by various associations

The second category of definitions includes definitions provided by the associations such as Indian Direct Selling Association, World Federation of Direct Selling Association etc. (already discussed above) are also not sufficient to define the scope of direct selling industry in India. These definitions do not tantamount to law and policy.

Statistical definition

Among the statistical definitions, one may refer to the classification of products provided under the United Nations Central Product Classification ('UNCPC') - and National Industrial Classification ('NIC').[1]

UNCPC and NIC are standard classification systems followed for classifying various economic activities. Such classification systems ensure comparability of statistics from various systems, on different aspects of the economy, and usability of such data for economic analysis.

In the current version of UNCPC, the two digit code:

- 62 - stands for 'Retail trade services'; and the further classifications:
  - 621 and 622 - stands for retail trade services through specialised and non-specialised stores
  - 623, 624 and 625 - is a residual category and can be interpreted as direct selling
  - 623 is explained as, 'This group includes:- mail, catalogue or Internet sales services by stores that accept orders of new goods by mail, telephone, e-mail, etc., and ship or deliver products to the customer's door.'
  - 624 is explained as, 'This group includes:- retail trade sales through vending machines;- retail trade services of market stalls- retail trade services of door-to-door sales or direct sales, defined as a method of consumer product and services distribution via sales in a person-to-person manner/way from a fixed retail location primarily through independent salespeople and distributors who are compensated for their sales and for their marketing and promotional services, based on the actual use or consumption of such products or services.'
  - Finally, 625 is explained as, 'This group includes:- retail services of commission agents who negotiate retail commercial transactions for a fee or a commission; - services of electronic retail auctions.'

The Indian statistical counterpart is the 2008 version of the NIC. At the two digit level:

- Division 47 - covers retail trade, with the exception of motor vehicles and motor cycle
  - 471 through 478 are sales through stores, stalls and marts.
  - 479 – Retail trade not in stores, stalls or marts'.

  One can sub-divide a bit further, but that is at best artificial.

1. NIC in 2008, UNCPC Version 2 , December 2008

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Current regulatory environment in Andhra Pradesh and Telangana

- 4791 - Retail sales via mail order houses or via internet' and explained as, 'in retail sale activities in this class, the buyer makes his choice on the basis of advertisements, catalogues, information provided on a website, models or any other means of advertising. The customer places his order by mail, phone or over the Internet (usually through special means provided by a website). The products purchased can be either directly downloaded from the Internet or physically delivered to the customer'.
  - » 47911 - Retail sale via mail order houses
  - » 47912 – Retail sale via e-commerce
- 4799 - This leaves a residual category of other retail sales not through stores, stalls or marts
- 4799 is interpreted as retail sale of any kind of product in any way that is not included in previous classes (by direct sales or door-to-door salespersons, through vending machines etc.), direct selling of fuel (heating oil, fire wood etc.), delivered directly to the customer's premises, activities of non-store auctions (retail) and retail sale by (non-store) commission agents. This class excludes delivery of products by stores.
- 47990 – Other retail sale not in stores, stalls or markets

The direct selling industry is evolving with rapid technological development and many new non-store formats like e-tailing, catalogue selling, mail-order selling and telemarketing are developing. These are often linked to direct selling as it involves booking through phone calls and demonstrations through catalogues. In the wake of existing regulatory uncertainty hovering over this sector and ever-growing forms on non-store retail, it is imperative to arrive at a precise definition and classification of the direct selling business.



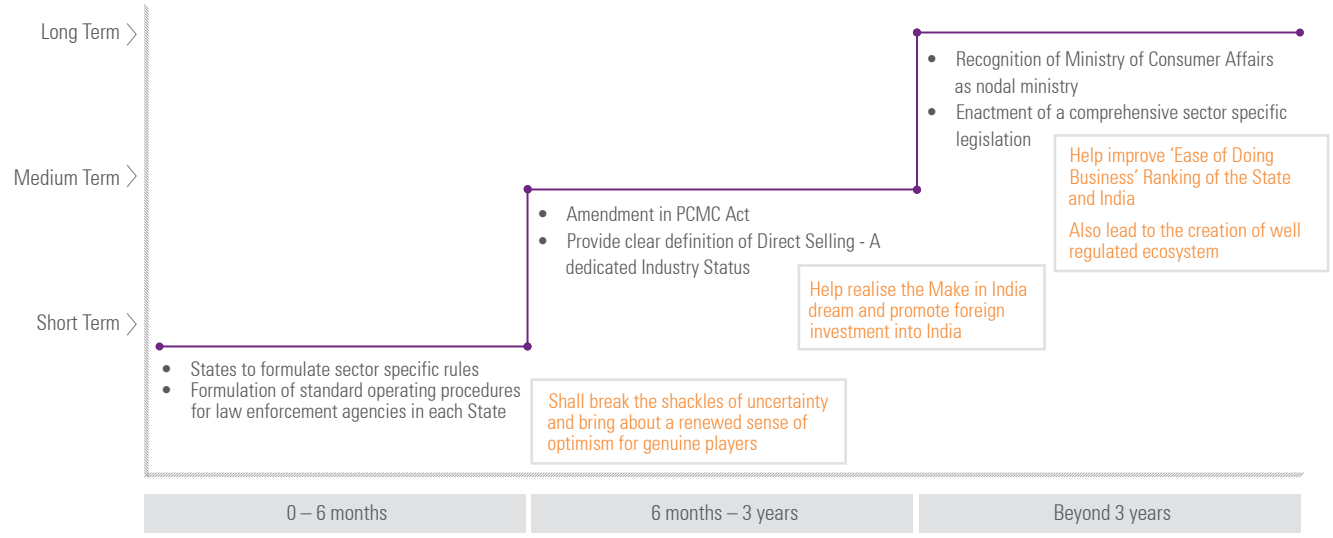
© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Potential solutions

To provide a conducive and sustainable operating environment in India for the companies operating in the Direct Selling industry, a series of reforms are required ranging from immediate short term reforms in terms of framing state level rules and/or standard operating procedure for law enforcement agencies to long term measures of enacting a specific governing legislation for the sector or making amendments in the existing Acts/policies.

A separate policy framework for the direct selling industry will clear the blurred lines between ethical industry players and impersonators and go a long way in regaining consumer confidence. This change is imperative, especially, when the industry faces dual challenges presently in the form of – an erosion of faith and an identity crisis.

We have highlighted below some of the potential solutions that can be considered by the Government/regulators in the coming future to benefit this industry.



Source: IDSA, PHD Chamber, ICREAR, Direct Selling News, Industry Discussions, FICCI Direct Selling Task Force

Formulation of standard operating procedures in each state

While remedies in law are available in existing statues, even today, they do not address the unique problems of the direct selling industry. The Indian law provides only for post-facto remedies, wherein the customer can seek a remedy only after they have been wronged or cheated by a fly-by-night operator. As a consequence, owing to the lack of legal and administrative guidance, the law enforcement agencies of the State erroneously target the direct selling businesses with money circulation schemes which are banned as a criminal offence under the PCMCS Act.

In the above backdrop, in order to give the direct selling industry a chance to substantiate genuines and prevent immediate criminal action on the receipt of complaint, the State along with its law enforcement agencies may develop standard operating procedures to be followed in case a complaint is filed against fraudulent MLM schemes. This ground level initiative can help avoid undue harassment of genuine players of the industry and restore public confidence.

Specific standard operating procedures for law enforcement authorities can help ensure that timely and correct legal action is taken against fraudulent money circulation schemes and undue harassment to bonafide direct selling companies can be curtailed.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Formulation of state specific guidelines



The need of the hour is for the Andhra Pradesh and Telangana government(s) to formulate specific guidelines governing direct selling activities in their states. Such guidelines should address the underlying problems of information asymmetry between business and potential customers, lack of consumer awareness and absence of certainty. Formulation of State guidance can act as the first concrete step to address the direct selling conundrum and help ensure consumer protection.

In order to clear the muddle around the 'Direct Selling business' being conflated with various ponzi or pyramid schemes, FICCI has defined the broad contours of a regulatory framework which may be adopted for the regulation of direct selling businesses in each State.

Definition of direct selling

The guidelines should provide a precise and clear definition of the direct selling activities viz. which specifically elaborate and specify the meaning and scope of the term 'Direct selling' and excludes specified industries or markets from the scope of these regulations. Further, the definition may provide for the forms of business eligible to undertake direct selling activities viz. a company, a limited liability partnership, partnership firm etc. duly incorporated and registered under the relevant statute.

Constitution of direct selling regulatory authority

The State government may constitute a 'Direct Selling' regulatory authority for the purposes of registration, control and supervision of the direct selling activities in the State.

Enforcement of mandatory Business registration

Every business intending to engage in direct selling activities should undertake business only after obtaining a prior registration as may be prescribed under the guidelines. The regulatory authority may require payment of a security deposit i.e. fixed percentage proportionate to the total expected turnover of the company, as a pre-condition to registration.

The State may adopt a licensing system instead of mandatory registration. It is pertinent to note that a licensing requirement would prohibit businesses from operating unless the regulator allows them to do business, and would require to comply with certain pre-conditions (minimum capital requirement, mandatory deposits etc.). This would add additional stringency over and above the mandatory business registration.

Mandatory registration of down line distributors by business

The guidelines may provide for mandatory registration of every Direct Seller and down line distributors associated with the direct selling company and issue a corresponding unique enrollment number.

Periodic inspections

Registration may be accompanied by periodic filings by the direct selling companies, followed by annual inspections or at prescribed intervals as the regulatory authorities may deem necessary. This shall help the regulatory authority develop appropriate strategies to clampdown on unfair practices; allow businesses to correct defects in their operations and cooperate with the industry in increasing consumer awareness.

Provision for redresssal of consumer grievances

While the Consumer Protection Act provides adequate safeguards against misrepresentation and false claims about products, it might not be sufficient to hold individuals accountable in a Direct Selling context since the claims are often made on the model of distribution instead of products or services. Hence, apart from the responsibility of the regulatory authority, the guidelines may provide for preparation of an internal grievance redressal mechanism wherein information can be sought on claims being made, and where complaints against distributors are addressed and measures are taken to prevent malpractices that are brought to the notice of the company.

Specific Rules for conduct of business

The guidelines may specifically prohibit or mandate certain specific practices for the direct selling companies viz. mandatory provision for buyback of unsold inventory, prohibition of mandatory joining fees, mandatory purchase of products in order to enter the distribution network and requiring clear identification of a genuine distributor, etc.

Recognition of a self regulatory body

The guidelines may provide for adherence to the 'code of conduct' of a recognised self regulatory body. When direct selling businesses claim to be members of a voluntary association and compliant with its regulatory code of conduct, and it is in fact found that such businesses are either not compliant with or is not a member of that regulatory body, consumers and regulators should have the right to hold such businesses accountable. Since consumers may have been induced into the scheme by virtue of compliance with such rules, it is important to prevent such false claims from being made.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Potential solutions

Consumer awareness campaigns

The guidelines may stipulate provisions to carry out advocacy, training and consumer awareness campaigns. Alternatively, a common pool or resource fund may be created in collaboration with industry that contributes to regular advocacy and consumer awareness campaigns that help consumers distinguish between genuine and illegal schemes making them aware of their rights under the law. The fund could also be utilised for regular and recurring training sessions for relevant law enforcement officials at the grassroots level.

Stringent penal provisions

Specific and onerous penalties, together with prosecution, may be incorporated under the guidelines to safeguard the interests of the consumers and discourage any unethical practices.

Establishment of appellate forums

Efficient and time-effective mechanisms should be designed to ensure that the relevant information with the regulatory authority is shared with relevant law enforcement officials at the State-level so that investigation and preventive action can be taken against cloaked schemes.

FICCI's recommended regulatory framework

- Clear and precise definition of direct selling and MLM activities
- Registration of such businesses as incorporated entities
- Constitution of a State level department – Single point clearance
- Prescribed security deposits
- Mandatory notification to/registration with the state level departments for all direct sellers/distributors
- Periodic inspection and audits of companies
- State-specific conditions may be imposed on conduct of such business
- Enabling clauses to extend incentives/benefits to genuine players
- Stringent but clear penal provisions
- Constitution of independent appellate forums.



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Amendment of PCMCS Act

- Over the years, many steps have been taken by the Centre and various state governments to formulate an enabling policy for Direct Selling companies in India. Various inter-ministerial committee(s) were formed under the aegis of the Ministry of Consumer Affairs and Ministry of Finance to formulate sector specific guidelines which are still under review by various government bodies. The Finance Minister, in the Budget Speech of 2014, proposed to bridge the regulatory gap under PCMCS Act and bring about the long awaited legislative reform, however, no progress has been made in this regard so far[2].
- The necessary amendment in the PCMCS Act is needed to make the distinction clear between direct selling and fraudulent pyramid money circulation schemes and exclude the direct selling industry from its scope. The said amendment may be introduced based on following principles:
  - Activities for identification of fraudulent schemes
    - » Payment for recruitment: Where the scheme generates income based on recruiting alone, it is a pyramid scheme and thus, should be considered as prohibited activity.
    - » Redistribution of joining or periodic renewal fees: Where there are entry or renewal fees that are redistributed to other participants in the scheme, it is a pyramid scheme and thus, should be considered as prohibited activity.
  - Products are pushed on participants: Where participants, as a condition for joining or remaining in the scheme, are required to purchase a specified inventory of products which cannot, under normal circumstances, be resold or returned for a refund, a pyramid scheme may be presumed. Such a practice is often called 'inventory loading" and may also be used as a proxy for a joining or renewal fee that gets redistributed to other participants. Thus, such practice should be considered as prohibited activity. In addition, the following measures can be incorporated into the Act:
  - Restriction on the commission paid to the Distributor: The proportion of commissions on the sale of product that may be shared with distributors should be restricted to a reasonable percentage of the total revenue from sales to distributors
  - State government to have approval authority: It can be provided that only the schemes approved by respective state government would be considered as permissible activity.
  - Mandatory to set- up 24x7 call to address customer complaints
  - Compulsory accreditation of products from government approved quality institutes (such as foods products or related products require accreditation under FSSA Act) or adherence to certain pre-determined quality standards in India.

2. Budget Speech of 2014 dated July 10, 2014 Para 135

Ironing out the indistinctness in PCMCS can help the direct selling sector break the shackles of uncertainty and bring about a renewed sense of optimism among the genuine players.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Potential solutions

Need for a clear definition of direct selling

- There is no clear and holistic definition of direct selling in India. Absence of a precise definition has led to the confusion of genuine direct selling schemes with fraudulent quick & easy money making schemes.
- There is need for a proper definition of 'direct selling model' under a specific legislation in India. Moreover, given the numerous social as well as economic benefits of this specialised channel of distribution direct selling could be given a separate 'Industry Status'.
- A facilitative and efficient regulatory framework can only flow from how direct selling is defined by the in law. In order to encourage innovation in business practices while broader social and economic public policy are met, the definition of direct selling may consist of two limbs: the first elaborates and specifies the meaning and scope of the term 'Direct Selling' while the second would specifically exclude specified industries or markets from the scope of legislation. This shall result in a business model-neutral definition of the direct selling mode of business.
- The first limb would be a carefully drafted exhaustive definition that addresses the key aspects and characteristics of the business without specifying a business model. The second limb would cover and clearly demarcate the jurisdictional scope of the legislation by excluding specific types of schemes, arrangements or even industries from the scope of Direct Selling.
- The advantages of such a definition are direct:
  - it ensures that the ambit of the legislation is wide enough to ensure that the objectives of a regulator are sufficiently fulfilled
  - while simultaneously also limiting the ambit of the legislation to these specific objectives alone.
- Such a definition must be supplemented by the rules and regulations that incentivise voluntary compliance, access to market information, and still provide reasonable space for both regulators and businesses to take corrective measures.

Separate Industry status can help develop an inter-related and inter-connected ecosystem of direct selling companies, inducing benefits of economies of scale, helping ensure healthy competition and encouraging technological innovations. This can also allow direct selling businesses to thrive in a well regulated and monitored environment.



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Need for Governing Ministry and Legislation

- The lacunae in the PCMCS Act necessitate that its diverse provisions are supplemented by legislation that specifically addresses Direct Selling.
- At present, direct selling falls under the purview of state legislation and is also governed by a various inistries/departments at the centre, state and local levels. The multiplicity of regulatory bodies has resulted in multiple regulations and regulators governing this sector. These should be streamlined for the smooth performance and development of this promising sector.
- While it is important that an enabling definition of Direct Selling is developed, it cannot serve its full purpose unless it is accompanied with an appropriate legislative recognition and effective enforcement. Considering the above, and the government chould nominate a specific ministry governing this industry. Such ministry should provide for specific regulations with a precise and clear definition of 'direct selling activities' including legitimate MLM companies.
- The Consumer Protection laws also need some modifications in order to protect the interests of the consumers for products sold through direct selling. For example, it does not clearly specify the cooling-off period for purchases through the direct selling mode. Apart from this, legal cases in India take time and there is need to speed up consumer court proceedings.
- In this context, the Indian Government can leverage from the regulatory experiences and practices of other countries, viz. U.S., U.K., Singapore, Malaysia etc. The industry, government and consumers suffer because of the activities of some of the fraudulent players. Therefore, the Central government can collaborate with industry associations and independent legal experts to design an appropriate regulation.
- The power to define direct selling activities and demarcation of pyramid schemes from bonafide direct selling businesses may be provided at the Central Level. However, the State government should be provided complete autonomy to implement the provisions of such a Central legislation by way of formulation of inter-alia specific consumer protection Rules/guidelines governing the activities of direct sellers in each State.

Single point clearance and a specific legislation can help bring about clarity in the business dealings of direct selling companies and save on cost, time and effort



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Myths surrounding to the industry



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Most direct selling companies are pyramid schemes that are doomed to fail

The differentiating factors between direct selling and pyramid or ponzi scheme clearly indicate that with a view to make quick money, the promoter of a Pyramid/ Ponzi scheme typically mandates participants to deposit significant money to join in the business opportunity, and financial rewards are highly dependent on further recruitment of members. Some Pyramid/Ponzi schemes may purport to sell products to camouflage the financial fraud but the products usually have little value and there is little or no selling.

On the other hand, genuine direct selling involves marketing of quality products at a competitive price with associated product warranties and guarantees. Also, the exponential additions of distributors to the network is earned only by accomplishing actual sales on a consistent basis.

It is however necessary to check some key aspects regarding any direct selling company :

1. The signing up fee in direct selling companies should generally be low and cover the cost of the direct seller's start-up kit. These companies want to make it easy and inexpensive for any sales person to start selling. Pyramid schemes, on the other hand, make nearly all of their profit on signing up new recruits.
2. The IDSA code of ethics requires buy back[1] of any unsold, re-saleable product inventory, purchased within the previous 12 months. Hence, legitimate companies will typically buy back unsold products if an agent quits.
3. Direct selling (like other methods of retailing) depends on selling to consumers and establishing a market. This requires quality products which are competitively priced. Pyramid schemes, on the other hand, are not concerned with sales to end users of the product.

Majority of direct sellers lose money; a lot of the direct sellers drop out from the companies

- Large numbers of direct sellers say that direct selling meets or exceeds their expectations as a good way to supplement their income or as a way to make money for themselves[2].
- Large numbers of the direct sellers say that direct selling meets or exceeds their expectations as a business where the harder they work, the more money they can make.
- In addition to providing income opportunities, direct selling also imparts transferable skills in sales and management, which can be used outside the direct selling industry, as well
- The various direct selling associations' (IDSA, WFDSA etc.) code of ethics, is designed to protect direct sellers and their customers. Inventory buybacks (which include sales aids) and other provisions allow sellers recourse they wish to exit the industry.
- The attrition rate for direct selling industry is around 11 per cent, while the retail industry has attrition rates as high as 20 per cent[3]. Lot of the direct sellers don't drop out due to failure but do so as they may not want to sell any more for the year.

1. IDSA Code of Ethics document, retrieved on 25th august 2015
2. ICRIER survey report titled "socio-economic impact of direct selling:Need for a policy stimulus" published in 2010, retrieved on 25th august 2015
3. IDSA annual survey 2013-14, ETRetail.com retrieved on 25th august 2015.



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Everyone who gets involved in direct selling wants an easy way to make money

People join direct selling firms with various intentions. As per ICRIER surveys 2011, 60 per cent people stated earning additional income is one of the reasons for joining as a direct seller, 60 per cent of the surveyed people mentioned direct selling as a medium of becoming independent while others take it up as it offers more flexibility or acts as a major source of income. In fact, direct selling offers significant employment opportunity to women in particular. About 64 per cent of women engaged in direct selling are self employed (full-time) direct sellers while only 36 per cent are part time consultants[4]. Hence, people have started to realise direct selling's potential to generate stable income in proportion to the efforts made.

The IDSA code of Ethics requires information provided by direct selling companies to prospective or existing direct sellers concerning the opportunity and related rights and obligations to be accurate and complete. Companies are required to present the advantages of the selling opportunity to any prospective recruit in a accurate and realistic manner.

Most companies require inventory purchases; direct sellers who drop out are stuck with the inventory they purchased

Direct selling companies do not require or encourage Direct Sellers to purchase product inventory in unreasonably large amounts. The IDSA code governs that companies shall buy back any unsold, re-saleable product inventory, purchased within the previous 12 months in case the seller opts to quit.

Recruitment is the key to success in direct selling; sales to end-users of the products and services are minimal

Recruitment is certainly an important aspect of direct selling. This helps in the expansion plans of the company thus leading to its growth. However, recruitment is not a requirement for individual direct seller's growth as the compensations are always based on actual sales of products or services. The direct selling industry in India is worth more than INR75 Billion. The major firms like Amway, Avon, Tupperware, Oriflame etc. are all product companies. The IDSA code specifies that companies shall take reasonable steps to ensure that direct sellers who are receiving compensation for down line sales volume are either consuming or reselling the products they purchase in order to qualify to receive compensation.

Direct selling companies have high focus on new product development. As per the PHD Search Bureau & IDSA surveys 2014, on an average, each direct selling company introduced around three new products/variants during 2013-14, while the number was seven in 2012-13. The companies have also invested about 2 per cent of their annual revenues in R&D activities in 2013-14 which reflects the strong product focus of these firms.

In addition, direct selling companies invest significantly towards the development of direct sellers. Direct selling companies have offered training to their sales representatives in the range of 200 man hours per quarter to around 22,000 man hours per quarter in 2013-14[4].

If a person attends a direct selling event/party, he/she is expected to purchase a product that is typically overpriced

There is no obligation to purchase any product during any direct selling event/party. These events are conducted only to demonstrate company products by the direct selling consultants. The key is to enhance the customer buying experience while interacting with knowledgeable and friendly consultants. They offer elaborate insights into the products which are not available with other retail formats. The IDSA code also mentions that a direct seller shall discontinue a demonstration or sales presentation immediately upon the request of the customer and should not force him/her to make any purchase.

In this competitive age, the market can not sustain overpriced products for longer periods of time. Almost all the direct selling companies offer 100 per cent money back policy, in many cases even if the products are used[4]. Direct selling has been found to be appealing to customers for its high quality of products and increased buying convenience. Some of the products could be in the premium segment but the value added incentive of the demonstration and personal service increases their acceptance.

Direct selling is an outdated method of buying and selling

Direct selling is practiced in more than 170 countries globally. The direct selling industry in India has shown a growth rate of 16 per cent over the period of FY11-FY14. Globally, the direct selling industry grew at a CAGR of 8.5 per cent over 2010 to 2014[5].

With rising income levels and demand for convenience, formats like direct selling and e-commerce are emerging in the country. These channels remove multiple intermediaries, thereby offering effective and economical ways of selling products and services. Direct selling in particular allows companies to significantly cut down advertising costs.

There are many examples where large companies have leveraged the direct selling model to increase customer outreach and sales in a cost-effective way. HUL's project 'Shakti', which increased the penetration of its products along with empowering women, or Eureka Forbes selling its high value products through direct selling are testimony to the relevance of the direct selling model.

4. IDSA Annual Report 2013-14, retrieved on 20th August
5. WFSDA annual report 2015, IDSA annual report 2013-14, Retrieved on 20th August 2015

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Annexures



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Annexure 1[1]

The Prize and Chits Money Circulation (Banning) Act, 1978

A consequence of the 'James Raj Committee'

The PCMCS Act is the direct outcome of the report of the James S. Raj Committee constituted by the RBI in June 1974. In the opinion of the Study Group – activities viz. prize chit/benefit/savings scheme etc. benefit primarily promoters and do not serve any social purpose. They are prejudicial to the public interest and also adversely affects the efficacy of fiscal and monetary policy.

The central theme of the James Committee report was to safeguard the monetary and credit policies of the country and ensure a degree of protection to the interests of the depositors who place their saving with such companies. To achieve such a broader objective, the Committee suggested to ban money laundering activities i.e. prize chit/benefit/savings scheme.

The legal edifice

With the overarching objective of protection of public interest, the PCMCS Act prohibits promotion, conduct of or participation in any 'prize chit' or 'money circulation scheme'. A 'money circulation scheme' is widely defined under the Section 2(c) of the PCMCS Act as:

'any scheme for the making of quick or easy money or for the receipt of any money or valuable thing as the consideration for a promise to pay money, on any event or contingency relative or applicable to the enrolment of members into the scheme, whether or not such money or thing is derived from the entrance money of the members of such scheme or periodical subscriptions'.

Section 3 of the PCMCS Act bans the above activities stating that:

'No person shall promote or conduct any prize chit or money circulation scheme or enroll as a member to any such chit or scheme, or participate in it otherwise, or receive or remit any money in pursuance of such chit or scheme'.

Any one related to such banned activities under the Act or attempting to promote such activities are also liable to penalty and prosecution subject to provisions of the PCMCS Act.

From the above discussion it is amply clear, that the application of the PCMCS Act to the direct selling industry by legislators, provided the direct selling scheme is genuine.

Misapplication of PCMCS Act

There have been multiple instances where enforcement agencies have invoked the PCMCS Act to genuine direct selling companies. Undoubtedly, there are a considerable number of fraud companies, who in name of direct selling dupe innocent customers. In fact either without a product or without a token/sham product they run money circulation schemes. Justifiably, PCMCS is to be applied so that innocent customers are protected.

However, as indicated above, genuine direct sellers are booked under PCMCS and victimised based on the act of distributor rewards which is another critical issue needing attention. A distributor with no active selling personally or personal nominal selling may earn enormous rewards (commission, reward, incentive etc.) – if he trains his recruitments to sell well.

These high incentivising opportunities are highlighted in IEC materials published by the direct selling companies. This creates a mistaken impression that, direct selling activity enables earning of 'easy money' amongst some regulators. Therefore, the genuine 'marketing bonus' payments to distributors should not be misinterpreted as payments for recruiting new members, as they are 'based on the quantity of actual sales'.

Direct selling schemes charged under PCMCS Act – Is a case of confusing identity

The PCMCS Act does not explicitly exclude or deal with businesses which involve genuine sale of products or services. Section 2(c) of the PCMCS Act is clear and emits the mandate of the PCMCS law, that prize chits, money circulation schemes, by whatever name they may be called, which do not bring public value; and where the chance of innocent investors being lured to loose their money – are to be banned.

The following extract of the report will bring out the exact intent of the Committee:

'….There has also been a public clamor for banning of such schemes (prize chit/benefit/savings scheme); this stems largely from the malpractices indulged in by the promoters and also the possible exploitation of such schemes by unscrupulous elements to their own advantage. We are, therefore, of the view that the conduct of prize chits or benefit schemes by whatever name called should be totally banned in the larger interests of the public and that suitable legislative measures should be taken for the purpose if the provisions of the existing enactments are considered inadequate. Companies conducting prize chits, benefit schemes, etc., may be allowed a period of three years which may be extended by one more year to wind up their business in respect of such schemes and/or switch over to any other type of business permissible under the law'.

1. James Raj Committee Report constituted by the RBI in 1974 and KPMG Analysis 2015

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Annexure 2

Despite the fact that direct selling companies have the appropriate approvals from the regulatory authorities in India, the detractors have drowned the definition of direct selling in confusion. Such activities are deemed to be akin to money circulation schemes and a few companies have also been prosecuted by the Indian State authorities under the PCMCS Act.

In simplest terms, direct selling is person-to-person sale of a consumer product or service. The second most important distinguishing factor is the composition of sales force. The real confusion arises when one talks of direct selling companies that deploy multilevel marketing compensation plans. To be precise, this is merely a technique used by direct selling companies to systemise and compensate direct sales force or business owners. According to WFDSA, the correct way of representing MLM is to call it a direct selling compensation plan where sales people receive payment in variety of ways.

Primarily, direct selling companies are seller based – they have a human interface – the distributor- who can earn a reward for making sale at a retail point. Accordingly, this model offers two propositions – high quality products for consumption and a business opportunity to sell those products and earn profit on them. The business owners have an opportunity to grow sustainable sales distribution networks.

At this juncture, it is imperative to note the Supreme Court judgment of 1982 (SCR (3) 121), in State of West Bengal and Others v Swapan Kumar Guha & Others, where the Hon'ble SC got an opportunity to excavate the true meaning of Section 2(c) of the PCMCS Act. Although facts leading this case were not from the direct selling industry, the court encountered the challenge of finding the real meaning behind of PCMCS Act and more particularly section 2(c).

The apex court felt that, it is far too vague and arbitrary to prescribe that 'whosoever makes quick or easy money' is to be penalised under the statute. After due deliberation the court laid down as follows:

'Two conditions must, therefore, be satisfied before a person can be held guilty of an offence under Sec. 4 read with Sections 3 and 2(c) of the Act. In the first place, it must be proved that he is promoting or conducting a scheme for the making of quick or easy money and secondly, the change or opportunity of making quick or easy money must be shown to depend upon an event or contingency relative or applicable to the enrolment of members into that scheme. The legislative draftsman could have thoughtfully foreseen and avoided all reasonable controversy over the meaning of the expression 'money circulation scheme' by shaping its definition in this form'.

After reading of the SC judgment and the James Raj Committee report, a logical conclusion may be drawn that the PCMCS Act, in its true spirit, does not apply to the rightful direct selling companies, who develop MLM plans. The sole motive of the recruitment is to develop a larger sales force to sell more products to prospective customers.



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

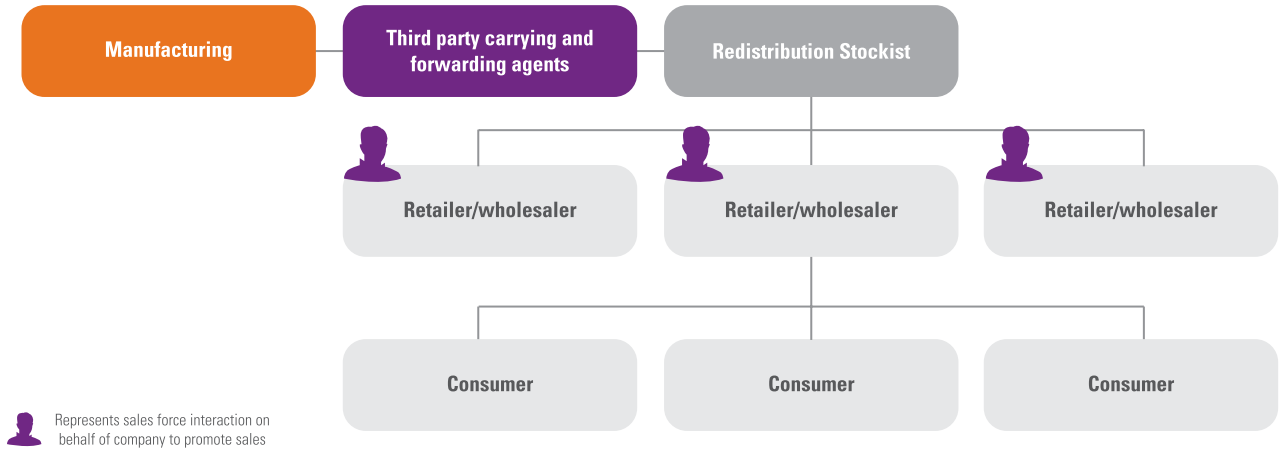
Annexure 3

There are a lot of similarities between traditional consumer goods retail and direct selling models:

- For both formats, distributors/direct sellers earn a commission when product sales takes place
- Also, in cases of both – earning of sales commission is based on sales volume of the individual (and the group)

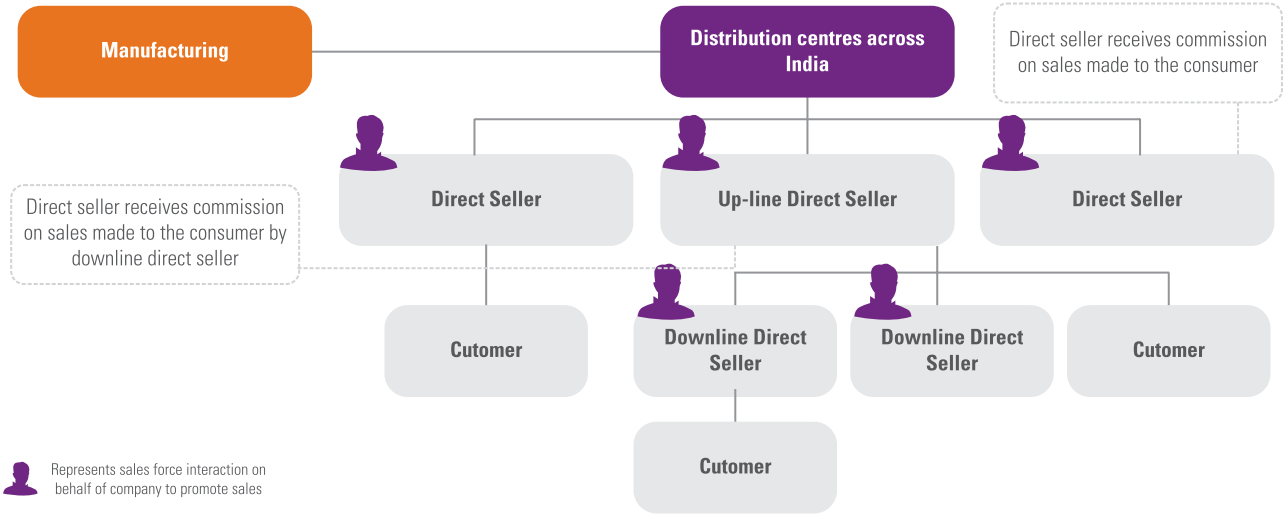
For retail format, the CFA, re-distribution stockist, and retail seller earn sales margins. In case of direct selling under MLM plan, all different levels of direct sellers earn commissions on the sale of products.

Traditional consumer goods retail model



Source: Industry discussion, KPMG in India analysis

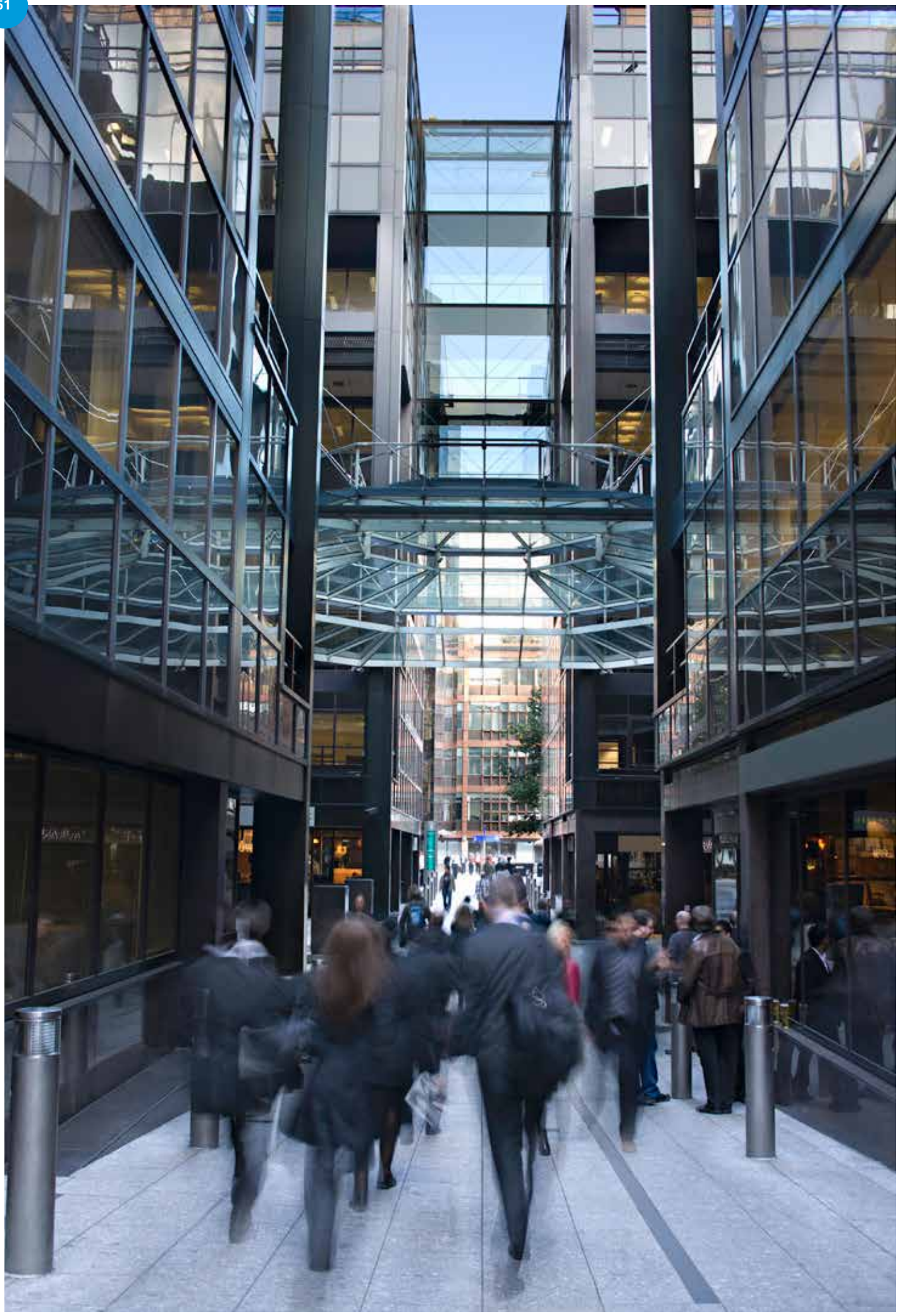
Direct selling (multi level marketing) model



Source: Industry discussion, KPMG in India analysis

However, despite the similarities above, traditional consumer goods retail and direct selling models, are essentially different formats with distinct investment requirements and sales philosophies.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Annexure 4 - Forecast methodology

Direct selling market size estimation

Methodology adopted

1. Identification of industries which had prominence in direct selling

Based on industries currently forming a major part in direct selling both in India and abroad. Example: beauty and personal care

2. Determine the current market size of the identified industries and the penetration of direct selling in each of the identified industries

Based on secondary sources and KPMG in India analysis

3. Project the market size of the identified industries in 2025

Based on secondary sources and KPMG in India analysis

4. Project the penetration of direct selling in 2025 in each of the identified industries.

Comparison with other economies which has exhibited a similar evolution cycle for direct selling industry

5. Aggregate the industry wise numbers to arrive at the total project market size for direct selling in 2025

Market size of the identified industry 1 X **Direct selling penetration in industry 1** + ---- + **Market size of the identified industry n** X **Direct selling penetration in industry n** = **Market size of direct selling industry**

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Annexure 4 - Forecast Methodology

Direct sellers estimation

Methodology adopted

1. Identification of country A whose current industry size is comparable to India's 2025 estimated market
2. Calculation of revenue per direct seller for the indentified country A
3. Calculation of India's 2025 estimated market revenue equivalent in PPP terms for comparable estimation
4. Estimation of India's potential self-employment generation using country A's equivalent



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Annexure 4 - Forecast Methodology

Direct selling market size and Direct sellers estimation for states

Methodology adopted

1. Projection of Indian middle-income households for 2025 using 2011 numbers
2. Distribution of the total Indian middle-income households by states based on estimated improvement in state welfare
3. Distribution of the estimated direct selling market in 2025 by states using proportion of middle income households as proxy for direct selling potential for that state
4. Distribution of estimated direct sellers in 2025 by states using the proportion of direct selling potential for that state



© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

About FICCI

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialisation, and its emergence as one of the most rapidly growing global economies.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

FICCI Direct Selling Task Force

The FICCI FMCG division has been relentlessly working on various issues which are critical for the industry. We have been actively involved in the policy & strategy, capacity building and global recognition for the Indian FMCG industry. We have formed a Task Force on Direct Selling industry which works on the similar issues with the Government.

Direct Selling is a very obvious distribution channel for FMCG industry and has gained huge importance in the times when demand is further driven by convenience at their door step. Direct Selling, as well understand is a sales and distribution channel/system whereby, on the basis of certain well defined rules direct sellers can derive income not only from personal sales but lso from ongoing sales and consumption by people whom they, directly or indirectly have introduced to the direct selling company and for whom they provide ongoing motivation and training.

We at Direct Selling Sub Committee give expert insight to the issues pertaining to this labour intensive Direct Selling industry. We interact with various ministries – to name a few – Ministry of Consumer Affairs, Ministry of Corporate Affairs, Ministry of Finance etc. to bring legitimacy to Direct Selling Sector. The subcommittee within itself has an advisory board of judgement neutral and intellectual people. In addition the committee has coordinated the think tank which deliberates issues and concerns of the DS industry on regular basis. The committee has also undertaken several events and initiatives to clearly bring out distinction between scams and Multi level marketing.

About KPMG in India

KPMG in India, a professional services firm, is the Indian member firm of KPMG International and was established in September 1993. Our professionals leverage the global network of firms, providing detailed knowledge of local laws, regulations, markets and competition. KPMG in India provide services to over 4,500 international and national clients, in India. KPMG has offices across India in Delhi, Chandigarh, Ahmedabad, Mumbai, Pune, Chennai, Bangalore, Kochi, Hyderabad and Kolkata. The Indian firm has access to more than 8,000 Indian and expatriate professionals, many of whom are internationally trained. We strive to provide rapid, performance-based, industry-focussed and technology-enabled services, which reflect a shared knowledge of global and local industries and our experience of the Indian business environment.

KPMG International

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 155 countries and have more than 162,000 people working in member firms around the world.

The KPMG Audit practice endeavours to provide robust and risk based audit services that address member firms' clients' strategic priorities and business processes.

KPMG's Tax services are designed to reflect the unique needs and objectives of each client, whether firms are dealing with the tax aspects of a cross-border acquisition or developing and helping to implement a global transfer pricing strategy. In practical terms that means, KPMG firms work with their clients to assist them in achieving effective tax compliance and managing tax risks, while helping to control costs.

KPMG Advisory professionals provide advice and assistance to help enable companies, intermediaries and public sector bodies to mitigate risk, improve performance, and create value. KPMG firms provide a wide range of Risk Consulting, Management Consulting and Transactions & Restructuring services that can help their clients respond to immediate needs as well as put in place the strategies for the longer term.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Disclaimer

KPMG Disclaimer

KPMG has, to the best of its ability, taken care to compile the information and material contained in this research work. The report contains certain case studies, company profiles and country regulations which have been collected through primary interactions, media reports and company websites. We have indicated within our report the sources of the information presented. We have not sought to establish the reliability of these sources by reference to independent evidence.

In addition, the report contains certain prospective market projections. Such projections are based on secondary research and our analysis based on certain underlying assumptions. We must emphasise that the realisation of the projections is dependent on the continuing validity of the assumptions on which it is based. The assumptions will need to be reviewed and revised to reflect any such changes in the business structure and direction as they emerge.

KPMG does not warrant that the information and material contained in the research work, or any part thereof, is designed to, or will meet any person's requirements, or that it will be error free or free from any inadequacies, incorrectness, incompleteness, or inaccuracies. KPMG hereby disclaims any warranty, express or implied, including, without limitation, any warranty of non-infringement, merchantability or fitness for a particular purpose, in respect of any information and / or material contained in the research work. KPMG will not be held responsible for any loss, damage or inconvenience caused to any person as a result of any inadequacies, incorrectness, incompleteness, inaccuracies, or errors contained in these research reports. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The report shall be read in its entirety by those to whom it has been circulated for viewing, without removing any disclaimer. By reading this report the reader of the report shall be deemed to have accepted the terms specified herein above.

Acknowledgements

This report could not have been written without valuable contributions from the following people.

Ms Shilpa Gupta and her team at FICCI and Members of FICCI Taskforce on Direct selling, who have guided and facilitated the making of the report.

The KPMG team, who has contributed towards the content presented in this document, comprises Rajat Wahi, Amarjeet Singh, Puneet Gupta, Suvasis Ghosh, Sushil Patra, Nidhi Jain, Nikhil Sachdeva and Sonam Chauhan.

A special note of thanks to Jiten Ganatra and Rajesh Patel for their notable contribution in designing and bringing the report together to its present form.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

KPMG in India contacts:

Nitin Atroley
Partner and Head
Sales and Markets
T: +91 124 307 4887
E: nitinatroley@kpmg.com

Ambarish Dasgupta
Partner and Head
Management Consulting
T: +91 33 4403 4095
E: ambarish@kpmg.com

Rajat Wahi
Partner and Head
Consumer Markets
T: +91 124 307 5052
E: rajatwahi@kpmg.com

FICCI contact:

Shilpa Gupta
Head
Retail, FMCG & Gems n Jewellery Committee
T: +91 11 2348 7270
E: shilpa.gupta@ficci.com

KPMG.com/in

ficci.com

Follow us on:

kpmg.com/in/socialmedia

Latest insights and updates are now available on the KPMG India app.
Scan the QR code below to download the app on your smart device.

Play Store | **App Store**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademark or trademarks of KPMG International.

Printed in India.(023_THL1015)