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FICCI

# Direct 2016

**The contribution of Direct Selling to building India**

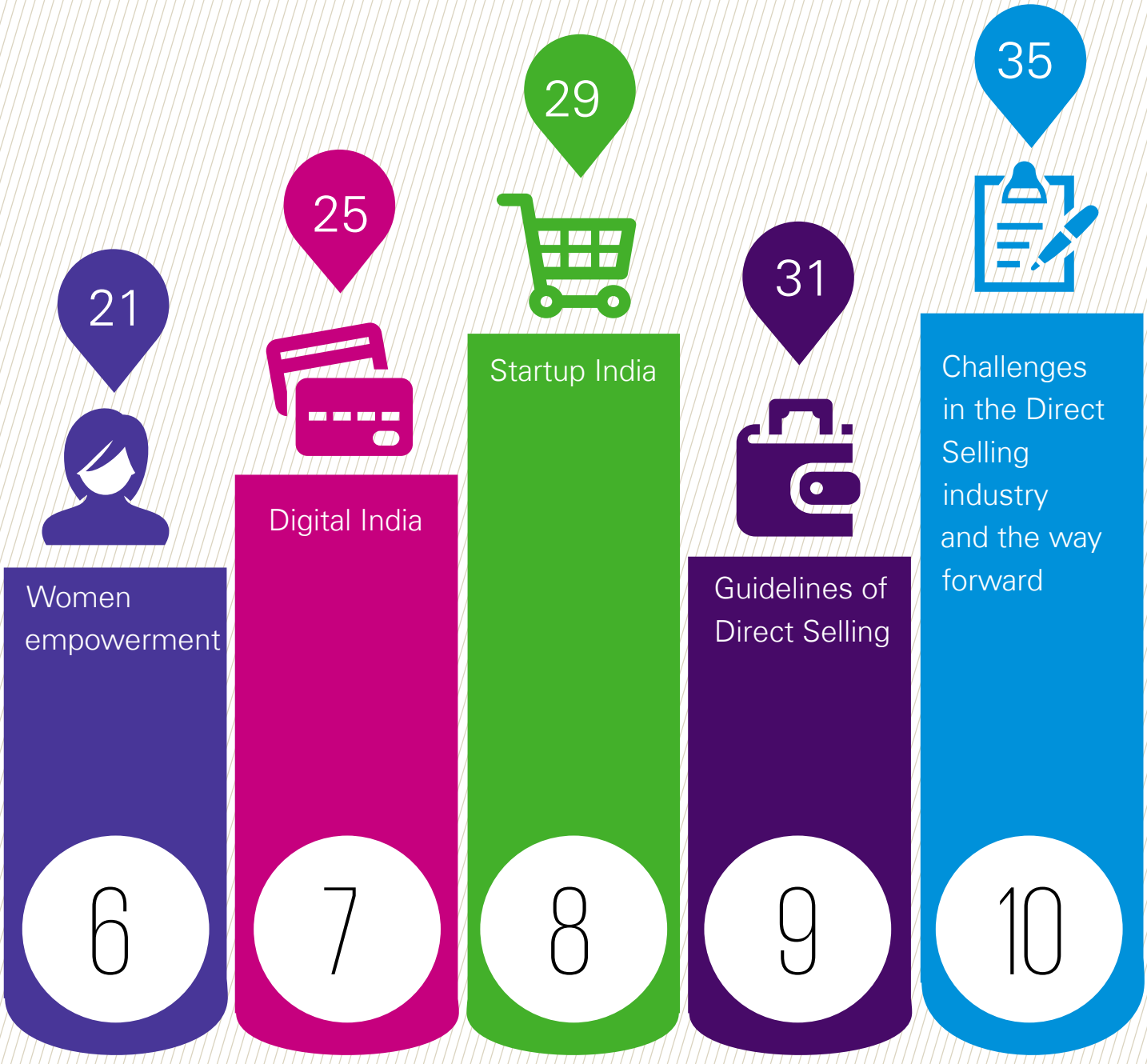


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# Foreword

## FICCI

With a developing economy, and growing consumerism, various store and non-store formats have evolved to cater to the growing retail sector in India. The Direct Selling industry in India is estimated at INR80 billion. It has grown at a CAGR of over 13 per cent between 2010 and 2015 and is one of the fastest growing non-store retail format, recording a double digit growth. The growing Indian market has attracted a large number of local and foreign Direct Selling companies.

Though Direct Selling is a relatively new industry in India, in less than two decades it has provided self-employment opportunities to more than 5 million people. Besides providing additional income opportunities to direct sellers, the industry also generates direct employment. Majority of the Direct Selling companies outsource 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 in 2012-13 alone the industry generated INR10 billion in taxes. Many Direct Selling companies have been in the forefront by actively contributing towards social activities.

The Hon. Prime Minister, during "Make in India" launch mentioned "if the poor get jobs, the purchasing power of families will increase". Keeping in mind the Prime Minister's Initiative the Ministry of Consumer Affairs, Food and Public Distribution have released the much awaited guidelines for Direct Selling industry aimed to bring regularity clarity to the industry and provide a boost to entrepreneurship and skill development.

In addition to providing income opportunities, Direct Selling also imparts transferable skills in sales and management which can be used outside this industry. By 2030, India is expected to have the largest labour force in the world. With over 12 million people joining the workforce every year, the country needs to create job opportunities for all of them. The Skill India initiative is aimed at bridging this gap between understanding the needs of the market and preparing the youth for the same. It aims at preparing a workforce of 500 million skilled Indians by 2022. Currently, over 5 million people are part of the Direct Selling salesforce, with majority being women (58 per cent). Thus, training a large network of sellers becomes the inherent task of the business.

We at the direct selling sub-committee give professional insight into the issues pertaining to this labour intensive direct selling industry. The sub-committee within itself has an advisory board of neutral and experienced people.

My colleagues, at FICCI worked as a connector between the industry and the researchers and adhered to quality and the timeline. I would like to express my gratitude to KPMG in India for this report.

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



**Dr. A. Didar Singh**
Secretary General, FICCI

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# KPMG in India

The strong emergence of Direct Selling in the Indian consumer markets over the years, is seen beyond just an alternative distribution channel. The concept of Direct Selling in India, which was arguably started in the 1980s, has become a strong parallel marketplace model and is estimated to be an INR80[1] billion industry currently. Various major international brands entered the Indian markets and national brands altered their strategies to capitalise on the model.

The economic reforms in the early 1990s also started affecting consumer behaviour significantly, making inroads into the success of brands practising Direct Selling model. Currently, Direct Selling is a pronounced form of selling due to its progressive approach to involve common citizens as part of the strategy to enlarge its distribution network. Direct Selling in India is gaining momentum by expanding its distribution channels to market various goods and services. One of the major advantages offered by Direct Selling is its ability to cater to both Business-to-Business (B2B) and Business-to-Consumer (B2C) channels. It has not only emerged as one of the fastest-growing non-store retail formats in the country, but is also seen as a proactive constituent that can boost several key social and economic parameters of the country.

There is thus, a need to ponder on the credible ways to capitalise India's potential — a large consumer base, workforce possessing great sales capability, educated non-working class (especially housewives), tech-savvy generation and entrepreneurship skills — to push the Direct Selling industry. In the current economic scenario, it is pertinent to re-assess the unrecognised scope of Direct Selling for the society as well as for the larger benefit of the economy. The government's flagship schemes — Skill India, Make in India, Digital India, Startup India, etc. — provide ample opportunities to the Direct Selling industry, and directly contribute to the country's economic growth.

However, the industry has witnessed lower entry rates of domestic companies into the direct selling arena owing to the lagging regulatory landscape in this industry. The recently introduced Direct Selling Guidelines 2016, which are yet to be ratified into statutory regulation, are expected to change the dynamics of the industry players — new as well as the existing ones.

This report, by KPMG in India and FICCI, investigates potential opportunities in Direct Selling offered by various flagship initiatives. It provides an overview of ways which can be linked to the ongoing development processes to develop capacities in the industry. Direct Selling plays a significant role in creating employment opportunities, imparting soft skills and marketing and leadership training, especially through the Skill India initiative. It certainly has much more potential than what it has realised so far.



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

1. As per the analysis and research of KPMG in India based on KPMG - FICCI report Direct 2015; Retrieved on 13 October 2016

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# Executive summary



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Direct Selling essentially refers to selling products directly to consumers away from a fixed retail outlet. The Direct Selling industry in India is estimated at INR80 billion[2]. It has grown at a CAGR of over 13 per cent between 2010 and 2015. While the Direct Selling industry entered India in the 1980s, it picked up traction only post 1995 when global companies like Amway, Avon, Oriflame and Tupperware entered India. Around the same time Modicare was one the first few Indian companies to adopt this channel of distribution.

Today, the industry is one of the fastest growing non-store retail formats in the country. Along the way, it has positively contributed to several social and economic parameters. Its contribution can be successfully mapped to the flagship schemes launched by the Government of India in the past two years.

## Skill India:

The Skill India scheme seeks to provide the institutional capacity to train a minimum of 500 million people by 2022[3]. The initiative is a multi-skill development programme, working towards nationwide job creation and entrepreneurship. Due to the personalised marketing nature of the Direct Selling industry, it is inherently involved in training its retail partners. The industry annually trains over five million people in marketing and communication skills, personality development and leadership skills[4]. It also imparts manufacturing know-how, technology and processes to enable its associate MSMEs to manufacture products. Training its business partners (individuals and MSMEs) forms the core proposition of Direct Selling.

## Make in India:

The Make in India scheme aims to make the country a global manufacturing hub and boost industrial growth. It looks to enhance manufacturing through various efforts directed towards facilitating investment, fostering innovation, protecting intellectual property and building best-in-class manufacturing infrastructure. Many Direct Selling companies rely on Micro, Small and Medium Enterprises (MSMEs) for manufacturing their products. In most cases, Direct Selling companies impart manufacturing know-how, technology and processes to enable the MSMEs to manufacture products. Many Direct Selling companies also invest in providing the right equipment and machines to the MSMEs for production. Driven by these initiatives, several MSMEs have now developed capabilities to cater to the needs of other MNCs and have commenced supplying to them, in the process promoting the Make in India initiative.

## Women Empowerment:

The Government of India has initiated various schemes to improve the social standing of women in the country and to empower them to become independent. A total of 15 dedicated schemes have been launched in this regard[5]. Due to the dominance of women centric products offered under Direct Selling, the industry provides self-employment opportunities to a large number of women. In 2015 alone it has provided self-employment to over three million female distributors[2]. It further gives women the flexibility to manage their time and balance their work and personal lives. By providing income generation opportunities and training, Direct Selling promotes holistic development of women.

## Digital India:

The scheme aims to help transform India into a digitally empowered society and self-reliant knowledge economy. The Direct Selling industry is adopting measures in the digital sphere that not only benefit the Direct Selling entities, but also ensure ease of doing business for its distributors and improved experiences for its end consumers. Mobile applications and websites have been launched by Direct Selling companies for its distributors to order products, monitor payments and access training modules. A large section of the Direct Selling salesforce that comes from tier II, III and rural areas of the country is getting exposed to digitised means of communication. Due to its large network, the industry's contribution to the Digital India initiative is immense.

## Startup India:

The scheme was launched to promote startups in India and establish a conducive environment to foster their growth. By imparting technology and management knowhow and skills to its associate MSMEs and retail partners, Direct Selling has been creating successful companies and entrepreneurs. Several MSMEs that were once exclusive manufacturers for various Direct Selling entities, are now catering to global FMCG clients. Direct Selling has also promoted startups in avenues such as transportation and logistics, training, app development, etc. Since a large portion of the Direct Selling value chain can be outsourced, fresh ideas from budding entrepreneurs across the value chain are always welcomed by the industry.

2. Discussions with industry players including Amway India Enterprises, Avon, FDSA, Oriflame and Vestige and KPMG analysis
3. National Policy on Skill Development Document; http://www.dget.nic.in/upload/uploadfiles/files/NationalPolicyonSkillDevelopment.pdf; Retrieved on 21st Nov 2016
4. News article; http://www.livemint.com/Politics/Tpqlr4H1ILsusuBRJlizHI/India-to-see-severe-shortage-of-jobs-in-the-next-35-years.html; Retrieved on 1st Nov 2016
5. News article; http://wcd.nic.in/schemes-listing/2405; Retrieved on 11th Oct 2016

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# Overview of Direct Selling in India



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Direct Selling is rapidly expanding the distribution channels for marketing various goods and services. Even though the definition of Direct Selling varies across different countries, it can be understood as "selling of goods and services to the consumers away from a fixed retail outlet, generally in their homes, etc., through explanation and demonstration of the product by the direct sellers.'' Due to its specialised nature, Direct Selling covers both business-to-business and business-to-consumers aspects. Direct Selling is one of the oldest modes of sale, and bears similarities to the traditional consumer goods model.

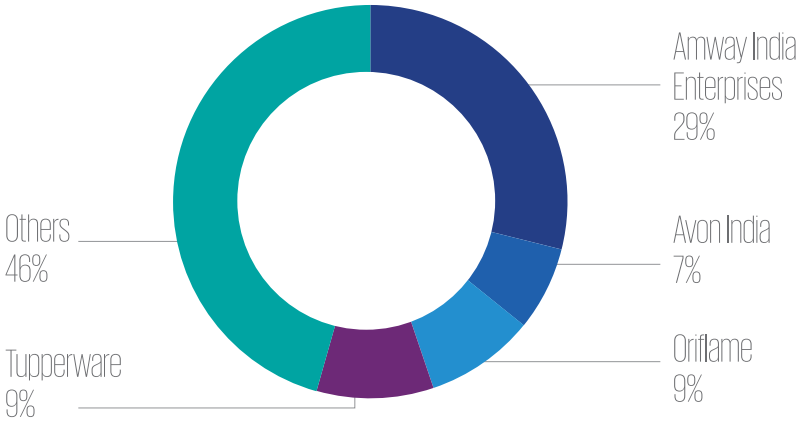
Direct Selling witnessed aggressive growth post liberalisation when many global companies entered India. Amway was one of the first major global Direct Selling companies to enter India in the year 1995, though it started its commercial operations in 1998. It was followed by companies like Avon, Oriflame and Tupperware in 1996. Around the same time Modicare was one the first few Indian companies to adopt this channel of distribution. Today, the Direct Selling market in India is estimated to be around INR80 billion, having grown at a CAGR of over 13 per cent between 2010 and 2015.

## Direct Selling market in India[6]




Direct Selling in India is an oligopolistic market with the top six companies controlling over 80 per cent of the market. While, Amway India Enterprises maintained its leading position in Direct Selling in 2015, with a 29 per cent value share, Avon registered the strongest growth of 24 per cent between 2014 and 2015[7]. Other players in the market like Tupperware and Oriflame also hold significant shares of the industry. International companies together account for a dominant 90 per cent of the organised market.

## Market Share of major players in 2015




**Source:** Euromonitor Report on Direct Selling in India, January 2016; Retrieved on 12 October 2016

5. As per the analysis and research of KPMG in India based on KPMG - FICCI report Direct 2015; Retrieved on 13th Oct, 2016
6. Direct Selling in India- Euromonitor International: January 2016; Retrieved on 12th Oct 2016

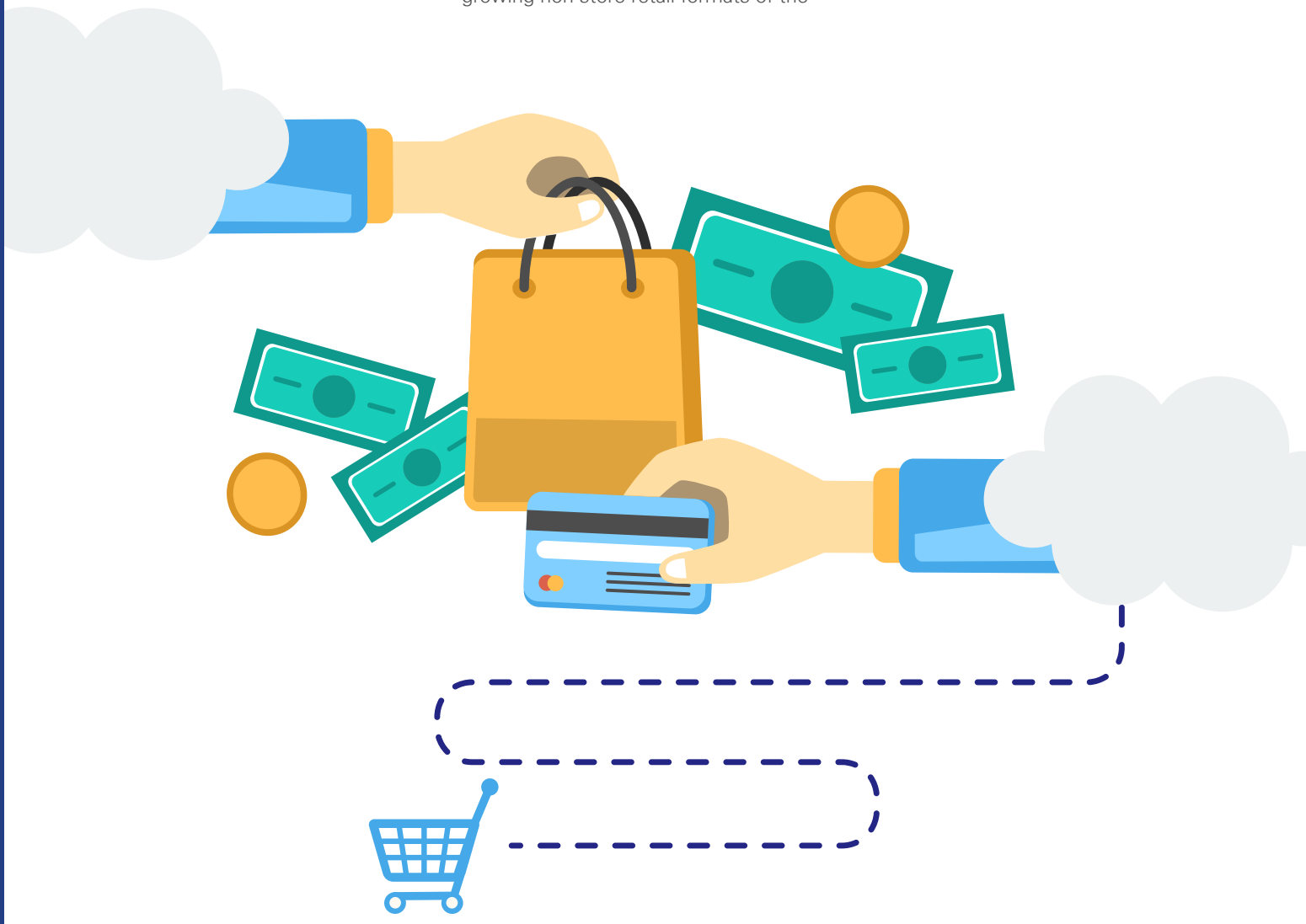
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Even though a host of small and micro-sized domestic companies are operational in India, the industry is yet to see aggressive participation from within the nation largely due to the late entry of regulations for this industry. However, the Direct Selling Guidelines 2016 introduced in September 2016 are the harbinger of recognition and protection for Direct Selling companies. Its ratification into a statutory regulation is expected shortly. This will likely invite larger participation from individuals and companies to the industry.

The sales in the Direct Selling sector in India are dominated by the Consumer Health segment, closely followed by the Beauty and Personal care segment. Food and Drink direct selling registered the strongest YoY value growth of 34 per cent between 2014 and 2015. On the other hand, consumer appliances like vacuum cleaners emerged as the least popular category for Direct Sellers.

With the right policy initiatives, the Direct Selling industry may touch INR645 billion in 2025[8]. This growth is expected to be driven by the rising share of middle income households, urbanisation and lifestyle changes and the ever-increasing reach of the Direct Selling industry. The advent of the Direct Selling Guidelines 2016 and their subsequent expected ratification are sure to drive the growth of the industry and shall also motivate domestic and global companies to join the sector and opt for Direct Selling as a preferred distribution channel.

While Direct Selling is one of the fastest growing non-store retail formats of the country, it has also created a positive impact with respect to several social and economic parameters. The industry's contribution to the country can be mapped to several flagship schemes by the Government of India in the past two years. Direct Selling has been playing a significant role in Skill India by providing employment opportunities and imparting soft skills and marketing and leadership trainings to the five million plus people in its network. It has also contributed immensely to the Make in India, the Digital India and the Startup India initiatives of the Government and in empowering the women of the country. The industry continues to innovate and invest in these initiatives.



8. KPMG FICCI report – Direct 2015; Retrieved on 13th Oct 2016

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# Skill India



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The Direct Selling industry trains over 5 million people annually in marketing and communication skills, personality development and leadership skills. It also imparts manufacturing know-how, technology and processes to its associate MSMEs to enable them to produce excellent products. Training its business partners (individuals and MSMEs) forms the core proposition of the Direct Selling industry

## Skill India - an overview[9]

By 2030, India is expected to have the largest labour force in the world. With over 12 million people joining the workforce every year, the country needs to create job opportunities for all of them[9]. The Skill India initiative is aimed at bridging this gap between understanding the needs of the market and preparing the youth for the same. It aims at preparing a workforce of 500[10] million skilled Indians by 2022.

The Ministry for Skill Development and Entrepreneurship was set up in November 2014 to add impetus to the Skill India agenda. On 15 July 2015, on the occasion of the first ever World Youth Skills Day, Hon. Prime Minister Narendra Modi launched four initiatives under the programme. They include:

- **National Skill Development Mission** - to provide a strong institutional framework at the Centre and states for implementation of skilling activities in the country
- **National Policy for Skill Development and Entrepreneurship 2015** - to provide an umbrella framework to all skilling activities being carried out within the country
- **Pradhan Mantri Kaushal Vikas Yojana (PMKVY) scheme** - to incentivise skill training by providing financial rewards to candidates who successfully complete approved skill training programmes
- **Skill Loan scheme** - to provide loans to the youth of India seeking to attend various skill development programmes.

## Contribution of Direct Selling to the Skill India initiative

**Current business practices on Skill development in Direct Selling industry**

Direct Selling is a labor intensive industry. The goods manufactured by the Direct Selling companies are retailed by independent business owners. The industry thus provides income opportunities to the unskilled and under-skilled manpower in the country. Currently, over five million people are part of the Direct Selling salesforce, with majority being women (58 per cent)[11]. Thus, training a large network of sellers becomes the inherent task of the business. The Direct Selling Guidelines 2016 have made it mandatory for the companies to conduct orientation programmes for all Direct Sellers. Additionally, Direct Selling helps MSMEs bring their production facilities and skills to higher standards through the transfer of processes and management know-how.

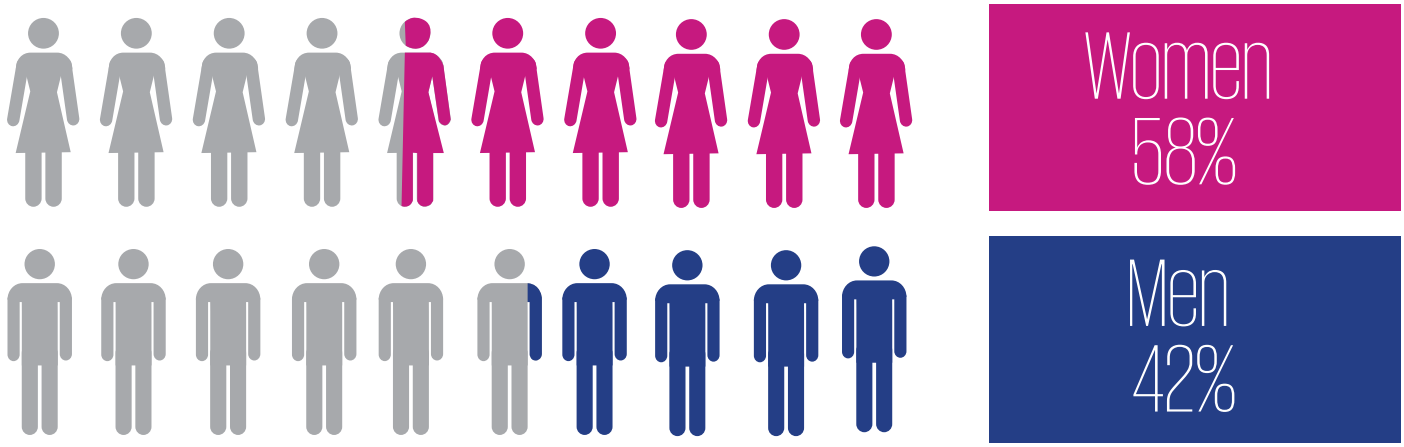
Direct Selling companies sponsor training of their retail partners – the underserved sections of the society, the under-qualified and the unskilled workforce, who take up Direct Selling as a secondary occupation to supplement their incomes. The industry trains them in salesmanship and soft skills. It prepares the youth, from across various segments of the society, in productive work and creates enormous opportunity for them outside the industry too. Direct Selling plays a critical role in personality development of individuals by improving and polishing their personal skills.

Vestige trained approximately 4,000 people under its Vestige Leaders Conference (VLC) programme. This training is conducted for senior distributors to help them grow in the business and learn to impart trainings to other distributors. The company has also introduced a module called ***How to sell like a pro***, which is an amalgamation of soft skills, marketing soft skills and marketing skills. Approximately 1,000 people have been trained under this programme till date. Similarly, Amway India conducts 18,000-20,000 training sessions for approximately 550,000 people per annum. Oriflame conducted 3,000 training sessions over the past year with each batch constituting 20-100 people.

9. KPMG report – India soars high, February 2016; Retrieved on 18th Oct 2016
10. National Policy on Skill Development Document; http://www.dget.nic.in/upload/uploadfiles/files/NationalPolicyonSkillDevelopment.pdf; Retrieved on 21st Nov 2016
11. News article; http://www.livemint.com/Politics/TpqIr4H1ILsusuBRJlizHI/India-to-see-severe-shortage-of-jobs-in-the-next-35-years.html; Retrieved on 1st Nov 2016

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## Gender split of Direct Selling sales force[12]




**Source:**

Largely, three kinds of training are imparted by the industry:

1. **Product and technical training:** The common pool of salesforce goes through these training sessions. In-depth knowledge of the products is imparted for making the salesmen aware of the specifications and applications of the product that subsequently results in generating sales. Since the Direct Selling companies constantly spend on research and development and launch new range of products, instilling product-related information and technical know-how amongst the sellers is a crucial training module. Such trainings are conducted by professionals from related industries, e.g. doctors from renowned hospitals are invited for training of health and skin products, while dieticians are invited for training on nutrition products.
2. **Marketing and soft skills:** The common pool of sales force is also imparted interpersonal skills such as good communication, convincing power, public speaking, etc. These trainings instil self-confidence and marketing skills in the salesforce. Skills presentation and public speaking are also strengthened through meetings with groups of consumers and demos of the products.
3. **Leadership and personality improvement:** Special training sessions are imparted to senior Direct Sellers who have spent sufficient time in the industry and have gained certain level of experience to help them inculcate leadership skills. Since senior distributors have a strong and wide network of their own, they are imparted skills required to run their own business. Their trainings focus on entrepreneurship and management skills, communication, and accounting skills. These distributors further conduct training for other Direct Sellers.

Direct Selling also imparts management and technology transfer to its associate MSMEs. Many Direct Selling companies rely on MSMEs for manufacturing their products. In a lot of cases, the Direct Selling companies impart the manufacturing know-how, technology and processes to enable the MSMEs to manufacture products. Small time manufacturers are guided with respect to skill and technique, and learn to grow and manage their scale of production. Driven by these initiatives, several MSMEs have now developed capabilities to cater to the needs of other MNCs and have commenced supplying to them.

In a nutshell, the Direct Selling Industry is expected to continue its momentum of creating self-employment opportunities and making India's youth skilled. Through honing the skills of Indians since two decades, the industry has contributed to India's economic as well as social development. With the growth in the industry, it is projected to associate with nearly 18 million Direct Sellers, including 10 million women, by 2025[13], all skilled on its floors.

12. News article; http://www.livemint.com/Politics/TpqIr4H1ILsusuBRJlizHI/India-to-see-severe-shortage-of-jobs-in-the-next-35-years.html; Retrieved on 1st Nov 2016
13. KPMG FICCI report - Direct selling - A global industry empowering millions in India; Retrieved on 28th Oct 2016

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# Examples of Skill India implementation by Direct Selling entities[14]

## Skill India at Amway India Enterprises

Amway Opportunity Foundation executes Amway's vision of enabling the less privileged children to lead a better life through projects such as the National Project for Visually Impaired. Under this project, Amway helped in establishing a fully functional computer centre for the visually impaired in Madurai in 2008. Since then, it has set up 12 such centres across the country benefitting approximately 7,500 people till date.

## Skill India at FDSA

*"Train a person to earn bread and butter rather than give him bread and butter"*, is the philosophy followed at International Marketing Corporation, an FDSA associated company. All eight FDSA companies show great interest and innovation in training its people with dedicated trainings for new joiners and the leaders. My Recharge is an authorised training partner of the National Skill Development Corporation. Oriens Global Marketing organises weekly training sessions for the newcomers under OBM (Opportunity Business Meeting) by its leaders (CEO, COO, CFO). For leaders, it conducts monthly meetings and trainings under the Leaders Training Programme. Under the Team Task Force programme, quarterly meetings are organised to recognise achievers, and product and business trainings are imparted to the distributors. Mega Life Style Program is conducted once in every six months to recognise promotions and give product training to people by specialist product trainers.

## Skill India at Oriflame

Oriflame has conducted 3,000 trainings last year with each constituting a batch of up to 100 people. The trainings focus on confidence building and personality development, with a special focus on presentation and marketing skills. Trainings are divided into two types: TTT (Training the Trainer) and PPP (Power Pack Presentation). They are segregated based on the seniority of the trainees. Senior people at the company get the opportunity to get trained by renowned management speakers like Shiv Khera.

## Skill India at Vestige

Vestige Heart to Heart Foundation, the CSR arm of the organisation executes Vestige's vision of enabling the less privileged children to lead a better life by working closely with various organisations and working in remote places like Dindigul, Tamil Nadu.

India has about 20 million orphans and a huge opportunity slips away from a nation when these kids are left unattended. Thereby, by providing for the education, healthcare and nutrition of 160 children in Anbaras, a project supported by the company, Vestige has taken a step to empower these orphans become a significant part of the economy and work in line with the Skill India scheme initiated by the government. Today, these children can imagine, dream and hope of a bright future.

Apart from the CSR initiative to work for the development of the children's skills, Vestige is working hard to develop and enhance the skills of the independent distributors of the company. Vestige conducts various training sessions like Vestige Leadership Conclave, Meet the Millionaire, Personal Care and Healthcare training, etc. where the company helps develop specialised skills in fields like sales, leadership development, healthcare education, etc.

14. Discussions with industry players including Amway India Enterprises, Avon, FDSA, Oriflame and Vestige and KPMG analysis

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# Potential opportunities for Direct Selling companies from the Skill India initiative[15]

**Access to trained workforce**

The Government plans to launch the Labour Market Information System (LMIS) as part of the National Portal. The LMIS shall provide information on the demand and supply of labour and market trends. By accessing the LMIS, the Direct Selling companies can recruit trained retail partners that match their requirements and needs, thereby benefitting both parties involved.

**Access to trainers**

The Government plans to establish a trainer/assessor portal, as part of the National Portal, which shall act as a repository and registration database for all certified and interested trainers/assessors. This portal can be accessed by the Direct Selling companies to recruit qualified and certified trainers/assessors for relevant trainings for their retail partners.

**Empowering woman entrepreneurs**

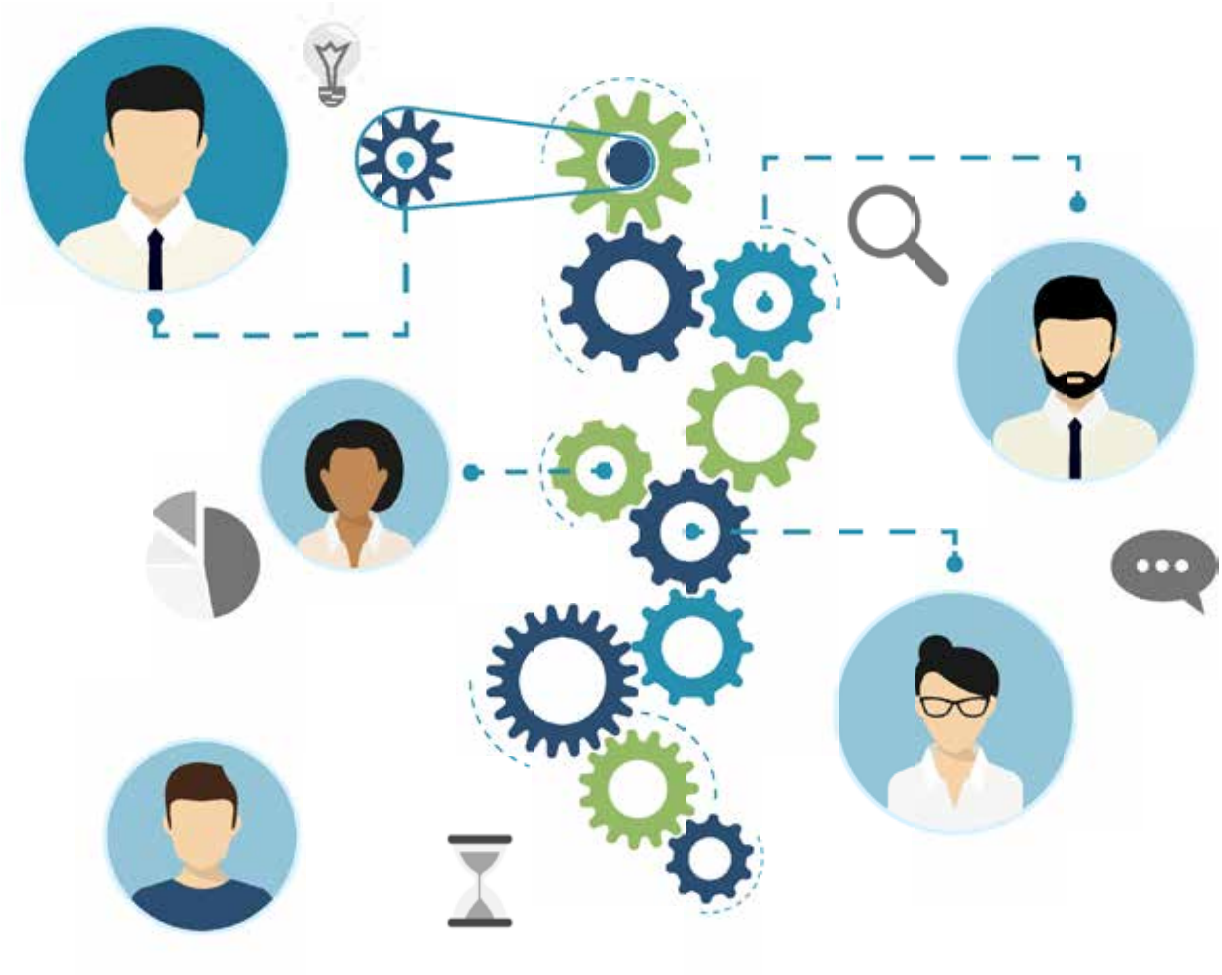
Women form the majority of the work force of the Direct Selling industry. Empowerment of woman entrepreneurs through the Skill India initiative is expected to significantly push the growth of the industry. Woman entrepreneurs shall be given priority for mentorship and other support systems and incentives under the Skill India initiative.

**Empowering entrepreneurs (MSMEs)**

Direct Selling facilitates growth of MSMEs as production of majority of the products is outsourced to them. MSMEs, thus, form the backbone of the Direct Selling industry. The Government plans to work closely with the MSME sector to establish apprenticeship opportunities in the country. Such programmes shall motivate the workforce to work in the MSME sector and help strengthen the quality of its workforce.

**Infrastructure**

By designing suitable incentive schemes by the Government under the Skill India initiative, existing infrastructure both in terms of buildings and potential teachers would be optimally leveraged for skill training. Since the business of Direct Selling is heavily dependent on the skills of its retail partners, routine trainings and subsequent infrastructure requirement for the same can be resolved by offerings of the Skill India initiative.



15. Policy document - National Policy for Skill Development and Entrepreneurship 2015; Retrieved on 21st Oct 2016

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# Make in India



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Most Direct Selling companies rely on MSMEs for manufacturing their products. In a lot of cases, the Direct Selling companies impart the manufacturing know-how, technology and processes to enable the MSMEs to manufacture products. Many Direct Selling companies also invest in providing the right equipment and machines to the MSMEs for production. Driven by these initiatives, several MSMEs have now developed capabilities to cater to the needs of other MNCs and have commenced supplying to them, in the process promoting the Make in India initiative.

## Make in India - an overview[16]

The manufacturing sector in India registered a growth of 3.1 per cent in 2015-16 (April-December), higher than its growth in the same period in 2014-15 (1.8 per cent)[17]. However, the country faces challenges in the sector such as low capacity utilisation, weak global demand, declining exports, currency fluctuation and the impact of two successive below par monsoons in 2014 and 2015. Accelerating growth of the manufacturing sector is key to stimulate higher economic growth of the nation. To this effect, the Make in India initiative was launched in September 2014, with the aim to increase the share of manufacturing sector in the GDP to 25 per cent by 2022. The scheme is an effort by the Government of India to give a comprehensive push to industrial growth by building a business friendly regulatory environment and strengthening the manufacturing infrastructure. The initiative is based on four fundamental principles:

**New processes**
By introducing new de-licensing and de-regulation measures, the Government is working towards reducing complexities and increasing efficiency. Ease of doing business has been identified as a critical factor to attract investments.

**New infrastructure**
Various regions have been identified as potential investment destinations. The manufacturing infrastructure and innovation capacity are expected to witness growth owing to the development of smart cities and industrial clusters across these regions

**New sectors**
Twenty five key sectors have been identified and reforms such as liberalisation of norms have been introduced under each. The key sectors include automobile and related components, aviation, biotech, chemicals, construction, defence, machinery, electronic systems, food processing, IT and BPM, leather, media and entertainment, mining, oil and gas, pharmaceuticals, ports and shipping, railways, renewable energy, roads and highways, space, textiles and garments, thermal power, tourism, hospitality and wellness.

**New mind-set**
Make in India symbolises an attitudinal shift in the country for investors, by limiting interventions in setting up and operating manufacturing units

## Contribution of Direct Selling on the Make in India scheme

**Current business practices on manufacturing in Direct Selling industry**

Direct Selling picked up traction in India only post 1995 when global players like Amway, Avon, Oriflame and Tupperware entered India. One of the entry conditions for these players was the mandatory association with MSMEs. Till 2011, only 30-35 per cent of their total products were manufactured in their own facilities. Nearly two-thirds of the production was manufactured through the MSMEs. However, overtime the companies started taking note of the growing opportunity within the country, and they started setting up own manufacturing facilities. Oriflame, which entered in 1995, was the first global player to start manufacturing in India in 1996. It acquired its second facility in 2013. Avon and Tupperware, which entered India in 1996, set up their first plants in 2010. Amway India Enterprises, the largest Direct Selling company in India, inaugurated its first plant in December 2015.

16. KPMG report – India soars high, February 2016; Retrieved on 18th Oct 2016
17. News article; https://home.kpmg.com/content/dam/kpmg/pdf/2016/04/KPMG-Flash-News-India-Economic-Survey-2015-16%E2%80%93Key-Highlights-3.pdf; Retrieved on 4th Nov 2016

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> *"This plant holds a pride-of-place in the Amway family, and was inaugurated by Hon. CM of Tamil Nadu, Dr J Jayalalithaa. Visitors have included the TN Minister of Industries, Secretary Consumer Affairs, consumer policy experts – all, who agree that the plant is truly world-class,"* says CEO of Amway India, Anshu Budhraja

The Direct Selling companies impart the manufacturing know-how, technology and processes to enable the MSMEs to produce leading products. Many Direct Selling companies also invest in providing the right equipment and machines to the MSMEs for production. Driven by these initiatives, the manufacturing expertise of these MSMEs is developed to global standards, and many of them have started catering to larger Indian and international players. Policies of the global Direct Selling companies also get cascaded down to these MSMEs, making the latter adopt certain global standards in their operational ecosystem.

Expecting the pace of growth of the Direct Selling industry to sustain and with dedicated guidelines for the industry coming through, all major players are expanding domestic production, either through setting up their own plants or through outsourcing to local MSMEs

## Manufacturing footprint of Direct Selling companies in India

**Amway India Enterprises**

- Amway India has commissioned an INR 5.5 billion facility in Nilakottai in the Dindigul district of Tamil Nadu[18]. The plant is spread over 50 acres and has nine production lines for nutrition, cosmetics and oral care products[19]. Through this facility, the U.S. player plans to expand its existing product base and launch new products in the country.
- Currently, Amway's own unit manufactures 40 per cent of the total demand in the country. It currently has tie-ups with seven MSMEs, and the combined production units manufacture around 60 per cent of their 140+ products in India. Imports are negligible (less than 1 per cent). Imports largely consist of raw materials from its mother plants in the U.S. and China, with product assembly being completed in India. The company eventually plans to fulfill 100 per cent of its demand in India from its own manufacturing facility.
- It has undertaken a massive groundwater harvesting project around this plant, covering 10 villages, and has reported a reverse migration of some farmers from the city, as the water table has already seen improvement.

**Avon**

- Avon has been operating in India since December 1996. It operates one manufacturing unit in the country in Dehradun, Uttarakhand. Its key training centres are located in the cities of Delhi, Mumbai, Chandigarh, Guwahati, Bengaluru and Kolkata[20].
- The facility in Dehradun became operational in April 2010, and has an annual production capacity of 55.8 million units[21]. It produces 70 per cent of the total products sold in India.
- Avon is associated with 4-5 third party manufacturers who produce aerosol products, soaps, costume jewellery, bags and other fashion accessories. They constitute 20 per cent of Avon's total goods manufactured. This share is expected to remain constant, as Avon wants to focus on production of its core product, cosmetics, while outsourcing production of non-cosmetics items.
- Ten per cent of the total demand is met through imported products.

18. News article; http://www.industryweek.com/expansion-management/amway-opens-first-manufacturing-plant-india; Retrieved 21st Oct 2016
19. News article; http://economictimes.indiatimes.com/industry/cons-products/fmcg/amway-sets-up-rs-550-crore-manufacturing-plant-in-tamil-nadu/articleshow/50352753.cms; Retrieved on 21st Oct 2016
20. News article; http://www.in.avon.com/PRSuite/history.page; Retrieved on 22nd Oct 2016
21. News article; http://www.business-standard.com/article/companies/avon-to-set-up-new-plant-down-south-112062500003_1.html; Retrieved on 22nd Oct 2016

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**Federation of Direct Sellers Association (FDSA)**

- All eight member companies of the FDSA tie up with MSMEs and act as their marketing arm. Most members of FDSA outsource production of over 75 per cent of their products to MSMEs, with the exception of RCM, International Marketing Corporation and Oriens Global Marketing that produce a large percentage of demand in India in their own factories.

**Oriflame**

- Oriflame currently has two manufacturing units in the country, in Noida and Roorkee[22]. The plant in Noida started operations in December 1996[23] and has a capacity of producing 80 million units per year[9]. The second plant in Roorkee, spread over 1.4 acres, was acquired in 2013 in a bid to meet growing demand of wellness products in India and Asia. In all, 216 Oriflame products are manufactured in its own facility, out of the total 366 products in its Indian portfolio[9]. The factory makes gels, creams, shampoos and decorative cosmetics (lip glosses and mascara) and hot filled products.
- Apart from these facilities, the company has tie-ups with 11 sub-contractors/third-party manufacturers.
- Ninety per cent of the demand in India is sourced through domestically produced goods. Twenty per cent of all the goods produced in India are used for exports.

**Tupperware**

- Tupperware started its operations in India in December 1996. However, it was only in 2010 that Tupperware started manufacturing at its Dehradun facility[24]. It also outsources production to its partners in various locations across India, including Hyderabad and Bengaluru[25]

# Potential opportunities and impact on Direct Selling companies from the Make in India scheme

**Policies within the Food Processing and Wellness sectors**

Out of the 25 key sectors identified and targeted by the Make in India scheme, the two sectors that directly impact the direct selling industry are Food processing and Wellness. While Food and Drink Direct Selling registered the strongest value growth of 34 per cent in 2015 over 2014, Consumer Health and Beauty and Personal Care continued to be the most popular product type sold via direct selling[26].

Under the Wellness sector, various steps have been taken to promote Ayurveda drug manufacturing (nutraceuticals, food supplements, cosmetics and rejuvenates). Players like Amway, Oriflame and Avon that offer products in the wellness space, can benefit by manufacturing and catering to the surging demand of Ayurveda, Yoga, Naturopathy, Unani, Siddha and Homoeopathy (AYUSH) and herbal products in India. The Central Sector Scheme, introduced by the Government, provides support for conservation, development and sustainable management of medicinal plants to leverage on India's vast tracts of natural flora and fauna. A centrally sponsored scheme, the National AYUSH Mission (NAM) has also been initiated to support cultivation of medicinal plants on farming lands. This will ensure consistent raw material supply to the Direct Selling companies.

Key policies in the food processing industry include the setting up of the Food Processing Fund of INR20 billion in NABARD for extending affordable credit to designated food parks and the individual food processing units in the food parks. As on 31 May 2016, around 25 per cent of the fund has been sanctioned to 12 mega food parks projects as term loans. Reserve Bank of India has classified loan to food and agro-based processing units and cold chain under agriculture activities for Priority Sector Lending (PSL). This is expected to attract large investments in the sector.

Fiscal incentives have also been instated by central and state governments including capital subsidies, tax rebates, depreciation benefits, as well as reduced custom and excise duties for processed food and machinery. In all, 134 cold chain projects are also being set up to develop stable supply chain infrastructure. A single window Facilitation Cell has been set up by Ministry of Food Processing Industries (MoFPI) for guiding foreign investors investing in the food processing sector.

**National Manufacturing Policy**

The National Manufacturing Policy under the Make in India scheme addresses areas of regulation, infrastructure, skill development, technology, availability of finance, exit mechanism, and other crucial growth factors of the manufacturing sector. The Policy specially targets the Small and Medium Enterprises (SME) by offering special benefits such as:

- Liberalisation of norms for investment by banks, venture capital funds and insurance companies in SMEs focused towards manufacturing
- Inclusion of lending to SMEs in manufacturing under Priority Sector Lending
- Tax concessions

SMEs, which have historically formed the backbone of manufacturing for Direct Selling companies in India, are expected to witness tremendous boost in manufacturing activities as a result of various incentives under the Policy.

22. News article; http://www.cosmetics-technology.com/news/newsoriflame-india-acquires-manufacturing-unit-in-roorkee; Retrieved on 27th Oct 2016
23. News article; https://corporate.oriflame.com/About_Oriflame/Global-Operations/Manufacturing-facilities/; Retrieved on 27th Oct 2016
24. News article; http://www.tupperwareindia.com/about-us/heritage; Retrieved on 23rd Oct 2016
25. News article; http://www.thehindubusinessline.com/companies/tupperware-plans-to-ramp-up-production-at-dehradun-plant/article2692098.ece; Retrieved on 23rd Oct 2016
26. Direct Selling in India- Euromonitor International: January 2016; Retrieved on 12th Oct 2016

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### Ease of doing business in India

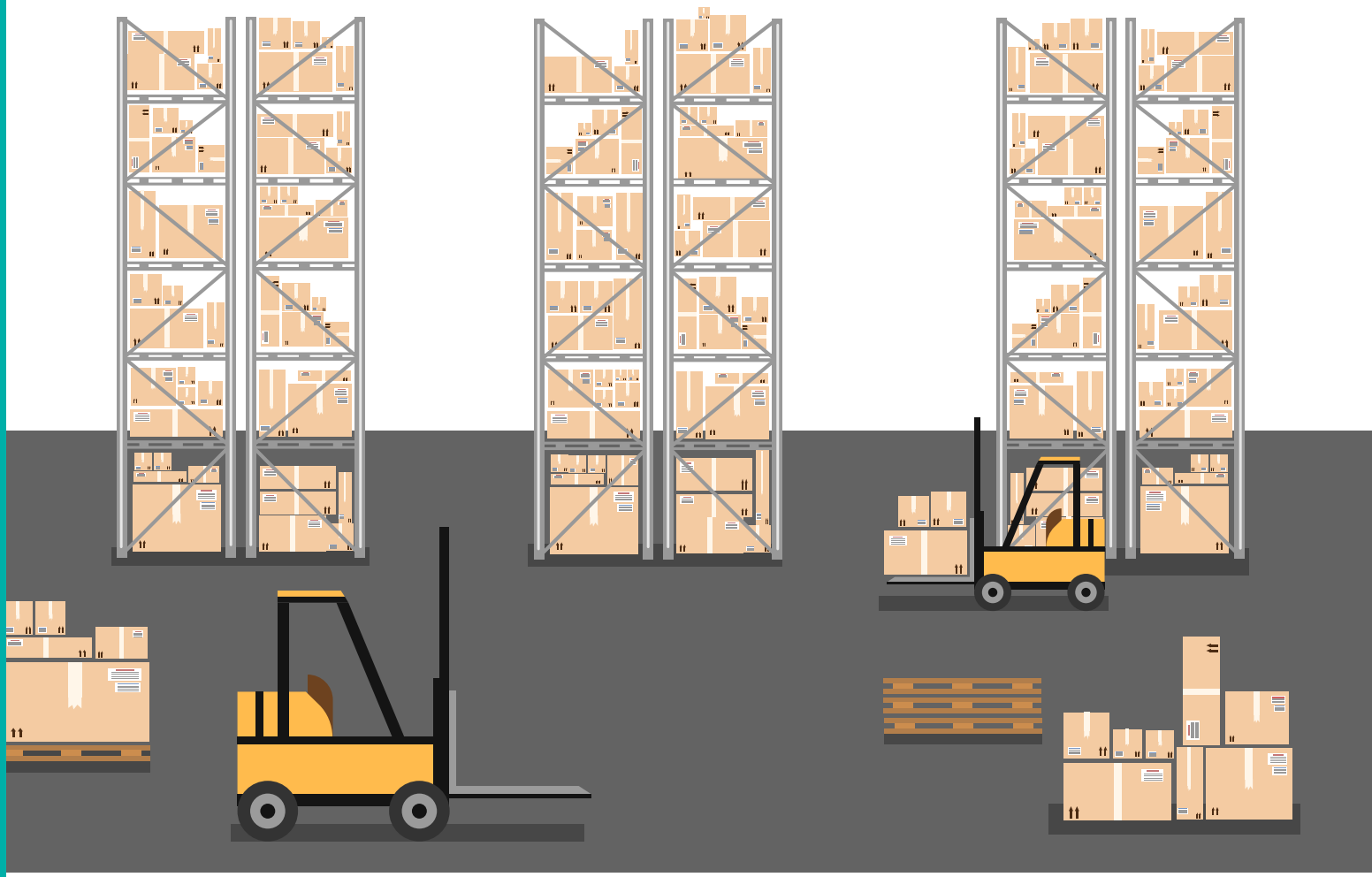
Many large direct selling companies in India are renowned MNCs. However, due to rigid and cumbersome laws and poor infrastructure in India, many global players face difficulties in setting up operations here. To resolve these issues, some of the steps taken by the Government include setting up of the Invest India- investor facilitation cell, a joint venture between the Federation of Indian Chambers of Commerce & Industry (FICCI), Department of Industrial Policy & Promotion (DIPP) and the state governments. The cell will help in guiding, assisting and handholding investors during the entire life cycle of the business. Additionally, eBiz, a single-window online portal offering 14 government services including employer registration, certificate of incorporation, industrial licence, etc. has been launched to boost investments into the country.

With rising investment from India and abroad, more and more MSMEs will be contracted. Advanced technical knowhow and resources will be advanced to these associate MSMEs to make improvements in the quality of products. Direct sellers are guaranteed to be benefited by this measure, as a majority of the total products sold by direct sellers in India currently are manufactured by third-party contractors/ MSMEs.

### National Intellectual Property Rights Policy 2016

Cell for IPR Promotion & Management (CIPAM) has been set up under the DIPP to be the single point of reference for promoting goals envisaged under the IP Policy. It aims at reducing transaction costs, improving transparency in the functioning of the IP offices and augmenting human resources to enable timely evaluation of applications.

The largest categories of products under Direct Selling are beauty and personal care and healthcare products. Such categories require continuous investments in product innovation and research. The largest player, Amway India is setting up of a high-end R&D center at Nilakottai, near Madurai, along with its manufacturing facility[27]. Similarly, other direct selling companies like Avon and Oriflame, which have huge budgets for product innovation and plan to introduce new product ranges in India regularly, can be expected to look at India as a research and development hub.



27. News article; http://www.business-standard.com/article/companies/amway-to-set-up-high-end-r-d-centre-in-tamil-nadu-115021100823_1.html; Retrieved on 21st Oct 2016

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# Woman Empowerment



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Direct Selling offers self-employment opportunities to a large number of people, especially women. In 2015 alone, the industry is estimated to have provided self-employment to over three million female distributors. It gives women the flexibility to manage their time and balance their work and personal lives. By providing income generation opportunities and trainings, Direct Selling promotes holistic development of women.

## Woman Empowerment in India - An overview

Woman constitute approximately 50 per cent of the total population of India, with only 27 per cent[28] of them forming part of the Indian workforce. This figure is lower than other developing nations and India's own neighbours, including Bangladesh, China, Malaysia, Myanmar and Sri Lanka[29]. India needs to transform its unemployed women force into an effective human resource by empowering them to participate fully in economic life. Some of the schemes by the Government of India in this regard are as follows:

- Beti Bachao, Beti Padhao
- Support to Training and Employment Programme for Women (STEP)
- Rajiv Gandhi National Crèche Scheme For the Children of Working Mothers

Such schemes grant the desired support and encouragement to women to step out and become part of the Indian workforce. They grant women the freedom to make life choices, along with instilling in them a sense of dignity, respect and self-worth.

The Direct Selling industry that constitutes of 58 per cent[30] women, presents itself as an industry in which women from any part of the country can contribute immensely and with relative ease.

> *"If the capacity of women is built, and they are linked with the development process, then the development of any country is speeded exponentially"* are words of Prime Minister of India, Shri Narendra Modi.



28. News article; http://www.hindustantimes.com/static/indian-women-leaving-workforce/index.html; Retrieved on 3rd Nov 2016
29. News article; http://www.hindustantimes.com/business/as-india-economy-grows-female-participation-in-work-force-declines-ilo/story-pGjf3zWf0VpnWfevajMUsM.html: Retrieved on 3rd Nov 2016
30. News article; http://www.livemint.com/Politics/TpqIr4H1ILsusuBRJlizHI/India-to-see-severe-shortage-of-jobs-in-the-next-35-years.html; Retrieved on 1st Nov 2016

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# Contribution of Direct Selling on empowering women

**Providing income opportunities to women**

Direct Selling is dominated by women globally as well as in India. Globally, women form approximately 75 per cent[31] of the Direct Selling salesforce, while in India this number is lower at 58 per cent[30]. Due to the dominant product categories marketed under Direct Selling, such as kitchen ware and cosmetics, and the flexibility of work hours the industry offers, there is higher participation from women. Direct Selling, thus plays an essential role in empowering women.

The prime factor that attracts woman to this sector is the convenience attached to Direct Selling. The industry provides extreme flexibility in terms of work burden and working hours. This allows women from all walks of life to be actively involved in the industry, without having to sacrifice on their family responsibilities. They can work at hours based on their convenience. Due to the absence of work targets, the work pressure experienced by Direct Sellers is also low.

Companies like Avon (largely cosmetics) and Tupperware (largely kitchen ware) offer the largest self-employment opportunities to women in India. Women constitute more than 90 per cent of the Direct Selling network at Avon. Further, the Direct Selling Guidelines 2016 have given credibility to the Direct Selling model in India, and more women can be expected to join the industry due to reduced risk of harassment. The industry believes that as the Direct Selling market grows, and companies venture into new product lines, the employment opportunities will increase and woman are poised to contribute to the industry in greater capacities.

**Training and entrepreneurship**

Direct Selling industry requires no prerequisites with respect to educational qualification or experience of its retail partners. Companies are themselves inherently involved in imparting appropriate skills to their sellers. While most of these trainings focus on marketing and soft skills, various additional steps are taken by these companies to provide recognition and encouragement to their women salesforce. Vestige recently published a book containing testimonials of top woman direct sellers within its ranks. The book describes the journey of women Direct Sellers and records their experiences with the company. The book is meant to act as motivation for other sellers and potential members of the network. Companies like Oriflame believe that by virtue of the trainings and the experiences that women sellers get, they inculcate an entrepreneurial spirit. By managing their Direct Selling networks, and providing trainings at their own level, they imbibe confidence and management skills to handle any type of situation on their own.

**Safety**

Direct Selling involves certain amount of travel when it comes to communicating with one's network. Safety thus plays an important role. To ensure safety of its Direct Sellers, companies issue guidelines that cover list of places to live, ways to travel and other such aspects that help the company monitor and ensure the security of its Direct Sellers.

Further, the Direct Selling Guidelines 2016 have made it compulsory for Direct Sellers to carry identification cards and file their KYC documents with the company they are associated with. This allows companies to keep a track of its employees and provides authorisation to the activities, which the Direct Sellers undertake.



30. http://www.livemint.com/Politics/TpqIr4H1ILsusuBRJlizHI/India-to-see-severe-shortage-of-jobs-inthe-next-35-years.html; Retrieved on 1st Nov 2016
31. next-35-years.html; Retrieved on 1st Nov 2016
31. KPMG FICCI report – Direct Selling, a global industry empowering millions in India; Retrieved on 28th Oct 2016

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## Woman empowerment at Vestige

Vestige hosts various training programmes especially for women wherein it helps direct sellers develop their distinctive skills and become better entrepreneurs. In India, where the rural areas are still lagging behind, Vestige is helping the women in those parts of the nation to become self-independent and break the bonds that stagnates their growth. Leading ladies from Vestige have set milestones and have become the role models for thousands of other women who feel inspired to become independent themselves.

## Woman empowerment at Amway India Enterprises

Amway India joined hands with the UP Police in the 1,090 Woman Powerline Project, which creates awareness on women safety across UP. Roughly 1,000 trained women volunteers visit schools and colleges in the state and educate the girl child on the Powerline Project. This project had been designed by the UP Police to provide safety to women and the girl child in face of various forms of atrocities they may face from time to time. This initiative was recognised by the UP Chief Minister Mr. Akhilesh Yadav, at an affiliated project – the Power-Angel Project, recently.

Another project with Palli Unnayan, an NGO in Odisha, has been providing coaching in self-defence and yoga to over 250 children a year, for the past six or seven years.

## Woman empowerment at Avon

Avon supports important issues like breast cancer and domestic violence, and organises events such as Avon Walk and Avon Sale to provide financial support and increase awareness about these issues. In 2008, Avon India launched the Avon Breast Cancer Crusade in association with Avon Foundation, followed by the "don't turn a blind eye to breast cancer" campaign in 2009. Through various mediums, breast cancer awareness was disseminated to reach over one million women. To strengthen its campaign against domestic violence, Avon launched an initiative called "The Justice Institutes" in March 2014 by the Global Partnership, a collaboration between Vital Voices, the Avon Foundation for Women, and the U.S. Department of State. The Justice Institutes improve victim protection efforts and the criminal justice system's response to domestic abuse by facilitating a holistic approach to addressing violence against women. In India, local partners include renowned and respected NGOs. Each Institute trains 50 participants, which includes 10 local NGO representatives, 10 law enforcement officers, 10 prosecutors, 10 judges, 10 government based service providers. In India, two chapters of "The Justice Institute" have been conducted, one in Delhi (2015) and the other in Mumbai (2016).

## Woman empowerment at Oriflame

Oriflame India has contributed towards women empowerment through its CSR activities by leading girls towards the path of education and helping them in bringing out their latent talents as well as by generating self-employment opportunities.

**Oriflame Girl Child**

'Oriflame Girl Child' project is an endeavour to spread the message that a community's development is incomplete without the education of girls. Under this project, Oriflame has sponsored education of 1,000 girls from a Delhi-based

NGO. A grant of approximately INR40 million was given to this NGP for the 'Oriflame Girl Child' project. The contribution has facilitated education of selected girls in the age bracket of 4 to 17 years.

**Power of Kiss**

This campaign is an endeavour to contribute to the overall development and welfare of the girl child in India. In alliance with

Deepalaya, Oriflame has promised to contribute contributed INR2 from the sale of each lipstick, which will doubled by a charity concern formed by Oriflame founder.

**Hand in Hand**

Oriflame has invested INR300 million in a Tamil Nadu based NGO, Hand in Hand. The NGO uses this grant to support Self Help Groups and microfinance projects for training of SHG members and women's literacy programmes. This project focuses on alleviating rural poverty by empowering women to become entrepreneurs and set up enterprises in order to bring in more income to the families.

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# Digital India



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The Direct Selling industry is adopting measures in the digital sphere that not only benefit the Direct Selling entities, but also ensure ease of doing business for its distributors and improved experiences for its end consumers. Mobile applications and websites have been developed by Direct Selling companies for its distributors to order products, monitor payments and access training modules. A large section of the Direct Selling salesforce that comes from Tier II, III and rural areas of the country is getting exposed to digitised means of communication. Due to its large network, the industry's contribution to the Digital India initiative is immense.

## Digital India- An overview

Digital India is a flagship programme launched by the Government on 1 July 2015. The programme is designed to build capabilities across infrastructure, manufacturing, processes, skill sets and delivery platforms, which in turn would lead to the creation of a self-reliant knowledge economy. It builds on existing initiatives, and is expected to impact ministries such as Communications and Information Technology, Health and Family Welfare, and Rural Development.

The vision of the Digital India initiative focuses on three key areas:

- **Digital infrastructure for every citizen:** This includes Internet availability, digital identity, mobile phones, bank accounts, safe and secure cyber space, etc.
- **Governance and services on demand:** It includes real-time availability of services on mobile phones and online platforms, enabling electronic and cashless financial transactions possible, etc.
- **Digital empowerment of citizens:** It encompasses universal digital literacy, availability of digital resources in Indian languages, etc.

## Contribution of Direct Selling towards Digital India

Direct Selling companies are rapidly adopting technology and digitising their operations, the penetration of which can also be witnessed at the ground level. A large section of the Direct Selling salesforce comes from the Tier II, III and rural areas of the country. They are being encouraged to use digital means to communicate within the network. Mobile applications and websites are being developed by Direct Selling companies to provide avenues to the sellers to learn the application of computers, smartphones and tablets, and to make communication real-time and more effective.

Avon has collaborated with digital platforms to facilitate payment from distributors through SMS and to maintain digital payment accounts for them. It also operates a mobile application and website for its distributors to order products and monitor their performance. Savon, another mobile application for distributors allows them to keep track of their savings with the company. Other companies have made efforts of similar nature. Amway India has distributed 2,300 tablets amongst its senior distributors to help them make presentations and place orders. These tabs are enabled to download Amway's free product training modules, and its website offers opportunity for consumers to explore the world of Amway India as well as enables its 500,000+ distributors to place orders. Vestige has launched a website and mobile application for distributors that allows them to order company products online. Over 230,000 distributors use this application currently.[32]

Direct Selling entities have also made efforts to improve the end consumers' experience through digitisation. Oriflame plans to launch a mobile application that will allow consumers to pick the products best suited for them based on parameters like skin type. The company also plans to shift to a cashless system and promote online payment[33].

By digitising parts of their operations, Direct Selling companies have eased interaction of distributors amongst their network, with the company as well as with the end consumers. Such measures help improve the consumers' experience with the company, thereby increasing customer loyalty.

32. Discussions with industry players including Amway India Enterprises, Avon, FDSA, Oriflame and Vestige and KPMG analysis

33. Discussions with industry players including Amway India Enterprises, Avon, FDSA, Oriflame and Vestige

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# Threat of e-commerce

Digital India has also contributed to the growth of e-commerce in India. The growth has been witnessed from consumers' side, as well as the supply side, as more and more sellers from the remotest parts of the country are joining hands with e-commerce companies to expand reach of their products. E-commerce presents itself as an alternate platform for Direct Sellers to offload their inventory. Direct Sellers offer their products online at lower prices, by cutting down their margins and pushing for greater sale volumes. This not only impacts the overall pricing of the company products in the market, but also affects the livelihoods of other Direct Sellers.

The Direct Selling Guidelines 2016 make it clear that products of Direct Selling companies cannot be sold online without prior approval from the respective companies. Since, most e-commerce websites follow a marketplace model, they do not hold inventory of Direct Selling products. Records of the sellers registered with the e-commerce players is not always accurate, and this acts as a deterrent for the Direct Selling companies in identifying the culprits in their network. Amway India Enterprises has made 1,500 enquiries in the past year against Direct Sellers who violate company policy. Over 800 suspensions and more than 300 terminations have been executed by the company[1]. Similarly, owing to brand or logo infringement, Tupperware has forced retailers to withdraw from the online platform[34].

It is important for the Direct Selling industry to tackle this threat of e-commerce. Greater compliance to Direct Selling Guidelines is required on the part of Direct Selling entities and e-commerce companies. It is essential for them to work collectively to ensure that products of Direct Selling companies are not sold without prior approval. It is also important that companies establish adequate policies to stop such acts and take strict action against sellers who violate these policies. For example, Amway India uses bar codes to track the point of sale of their products and takes actions against violators



34. News article; http://economictimes.indiatimes.com/industry/services/retail/direct-selling-companies-hit-by-ecommerce-hul-eureka-forbes-embrace change/articleshow/49531489.cms; Retrieved on 18th Oct 2016

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# Startup India



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By imparting technology and management knowhow and skills to its associate MSMEs and retail partners, Direct Selling has been creating successful companies and entrepreneurs. Several MSMEs that were once exclusive manufacturers for various Direct Selling entities, are now catering to global FMCG clients. Direct Selling has also promoted startups in avenues such as transportation and logistics, trainings, app development, etc. Since a large portion of the Direct Selling value chain can be outsourced, fresh ideas from budding entrepreneurs across the value chain are always welcomed by the industry.

## Startup India - An overview

The Startup India initiative was launched on 16 January 2016 by the Government of India. It aims to foster entrepreneurship and innovation by creating an ecosystem that is conducive for the growth of startups. Prime Minister of India, Shri Narendra Modi unveiled the Action Plan highlighting initiatives and schemes being undertaken by the Government to address various aspects relating to developing a conducive startup ecosystem in the country. The Action Plan started by the Government includes initiatives on helping startups gain financing, simplifying the ease of starting, operating and existing businesses, and offering incubation partnership opportunities with the Government and industry participants.

## Contribution of Direct Selling to Startup India initiative

The typical value chain of a Direct Selling entity flows from product development, to manufacturing of that product, to recruitment and training of sellers, and subsequently packaging and transportation of products to their final destination. The extent of backward integration that a Direct Selling company follows depends on the size and core competencies of the entity. While R&D of products and trainings of sellers form the backbone of Direct Selling operations, and hence are managed internally by most companies, all other aspects like manufacturing of products, packaging and transportation, and support functions like app development and maintenance, payment management, etc. can be outsourced to third parties. In the area of manufacturing, especially, Direct Selling has been empowering and supporting various MSMEs through technology and R&D transfer, enabling them to compete at global levels. They have helped develop vendors by providing them with technology knowhow and instilling in them effective management policies. By conducting various trainings for their sellers, and imparting responsibilities to leaders to conduct more trainings and manage their network, the Direct Selling companies also build entrepreneurs. Direct Selling thus plays an important role in the incubation of business.

**Startup India at FDSA**

Sarso Biznet International, an FDSA associated company, played a strong role in promoting indigenous manufacturing of goods and encouragement to startups. It assisted a Punjab-based tailor in acquiring the necessary technical knowhow and equipment to grow his tailoring setup to a garment manufacturing factory. Another small-time shoe making enterprise was assisted by Sarso in getting acquainted with the latest fashion and technology used in shoe making and in eventually catering to bulk orders for contemporary fashion shoes. Apart from fulfilling orders for Sarso, the company today is associated with international companies for shoe manufacturing.

## Impact and opportunities from Startup India to Direct Selling[35]

Through the Startup India initiative of the Government, production through MSMEs will get tremendous boost. Central Government, state governments and PSUs have to mandatorily procure at least 20 per cent from MSME. Such a stipulation shall encourage production by MSME and boost the sector. By providing startups access to high quality Intellectual Property services and resources, startups shall be facilitated in protecting and commercialising IPRs. Since manufacturing is largely outsourced by Direct Selling companies, such schemes within Startup India could lead to high traction of entrepreneurs in manufacturing and product development operations and will complement the growth of the Direct Selling industry.

33. Department of Industrial Policy and Promotion: Action Plan, January 16 2016; Retrieved on 29th October 2016

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# Guidelines on Direct Selling



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The Direct Selling Guidelines 2016 have been the harbinger of recognition and protection for the Direct Selling industry. A clear definition of Direct Selling by the Government will help Government bodies, investigating agencies and the consumers differentiate between legitimate businesses and ponzi schemes. Unauthorised sale of products on e-commerce platforms will be prevented. This will further boost investor confidence and attract investors and foreign players into the Indian Direct Selling market. It shall also attract more distributors to become a part of the industry. The risk of harassment of distributors will subside, thus inviting more women to be a part of the salesforce. However, ratification of these guidelines still remains.

The advent of the Direct Selling Guidelines 2016, is a result of countless deliberations between various Government ministries and the Direct Selling industry:

- On 7 October 2014, the Department of Financial Services (DFS), Ministry of Finance that was then looking into the amendment to the Prize Chits and Money Circulation Schemes (Banning) Act, 1978 held a meeting with representatives from IDSA, PHD Chamber of Commerce, FICCI, CII and ASSOCHAM to explore the possibility of resolving the misapplication of the Act to the industry and exemption of the activities of the industry from the Act. However, after several deliberations of DFS with other stakeholders in the Government, DFS established that the problems of Direct Selling industry might not be resolved by amending the Act and that the activities of Direct Selling will be excluded from the Act if and only a separate legislation with a framework of registration was created.
- It was then that the Secretary of Consumer Affairs proposed the Government legislate a new law for Direct Selling[36]
- Following the recommendations of the meeting and proposal from the Secretary of Consumer Affairs, an Inter-Ministerial Committee (IMC) was established in November 2014 under the Chairmanship of Secretary Consumer Affairs. Members of the IMC included representatives from Department of Industrial Policy & Promotion, Ministry of Consumer Affairs, Ministry of Corporate Affairs, DFS, Department of Revenue, Department of Legal Affairs, Department of Electronics and IT, as well as Chief Secretaries of Delhi, Andhra Pradesh and Kerala.

The Terms of Reference of the IMC were as follows:

1. To examine the nature and growth of Direct selling/MLM companies in the country over the last five years
2. To examine the factors/features that distinguish the above models of business strategy from Pyramid, Money Circulation Schemes
3. To examine whether or not standalone legislation is now required to regulate the above business models
4. If so, the possible framework for such legislation based on the existing laws and regulations including that in other countries
5. Identification of goods, services and operational issues to be covered under the new legislation
6. The committee will be free to record evidence of other stakeholders such as IDSA, Consumer Groups etc.

Meanwhile, the Indian Institute of Corporate Affairs (IICA), the think-tank of the Ministry of Corporate Affairs, was conducting its own independent research to understand the challenges faced by the industry. Like the Secretary Consumer's proposal in a meeting on 7 October 2014, IICA felt that a separate law was the need of the hour and published a draft legislation for Direct Selling in August 2015. One of the key solutions from the report was the mandatory registration of any Direct Selling company with a centralised regulator to ensure distinction between legitimate and illegitimate businesses. This further gave rise to the need for a clear definition of the business as well as a nodal regulatory body to look into the legitimacy of the business. The report contains parts on how legal and judicial approaches can be used to distinguish between Pyramid schemes and legit Direct Selling businesses, how a definition can be laid upon the Direct Selling business, comparative analysis of Indian legislation in this sector with best practices from across the globe and various regulatory solutions appropriate for India's Direct Selling industry. Through this draft, the IICA presented its recommendations to the Parliamentary Standing Committee of Finance[37].

36. Minutes of the Meeting - Meeting held under the Chairmanship of Secretary (FS), Department of Financial Service, 7 October 2014; Retrieved on 21st Oct 2016

37. Indian Institute of Corporate Affairs report – Whitepaper on regulation of Direct Selling in India, 2015; Retrieved on 21st Oct 2016

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- According to the report by the Parliamentary Standing Committee on Finance titled the "Efficacy of Regulation of Collective Investment Schemes (CIS), Chit Funds, etc.", a similar research was undertaken to understand policy issues and challenges faced by the Direct Selling industry and issues faced by the public from fraudulent pyramid schemes that operate under the garb of direct selling. After several depositions from regulators and stakeholders in the Government, the Standing Committee recommended that the Ministry of Finance, Ministry of Corporate Affairs and Ministry of Consumer Affairs consider the IICA whitepaper and more specifically, the exposure draft and establish a regulatory framework and compulsory registration process for all Direct Selling businesses in order to provide an oversight mechanism as to whether they are legitimate direct selling businesses or Ponzi/pyramid schemes[38]
- The Department of Consumer Affairs, Ministry of Food, Consumer Affairs and Public Distribution that chaired the IMC took note of all these developments. It also held several consultations with stakeholders from the Direct Selling industry and members of the IMC. After several deliberations, the Department of Consumer Affairs issued the Model Direct Selling Guidelines 2016 on 9 September 2016 as an advisory to the state governments to be considered in strengthening the existing regulatory mechanism for Direct Selling and to protect the legitimate rights and interests of consumers.
- As next step, the Department of Consumer Affairs, as recommended by Parliamentary Standing Committee on Food, Consumer Affairs and Public Distribution, is also considering the possibility of making these guidelines a statutory regulation once the Consumer Protection Bill 2015 is enacted in the Parliament.

## Overview of the Direct Selling Guidelines 2016

The Direct Selling Guidelines 2016 have defined important aspects of the Direct Selling industry. By giving formal definitions to Direct Selling, Direct Seller, Network of Direct Selling and Direct Selling entity, the guidelines have countered a major challenge being faced by this industry since years. These definitions reduce the ambiguity surrounding the industry. The guidelines also clearly define the Pyramid Scheme, and thus establish a clear distinction between the Direct Selling Industry and fraudulent Pyramid Schemes.

State Governments/UTs have been asked to set up a mechanism to monitor activities of Direct Sellers in line with the guidelines. Every Direct Selling entity intending to carry out Direct Selling business subsequent to the publication of the notification in the Gazette, shall within 90 days comply with the following set of conditions for the conduct of the Direct Selling business.

Key highlights of Direct Selling Guidelines 2016 have been discussed below:

**1. Setting up a business:**

- Any Direct Selling entity has to be registered as a legal entity under the laws of India
- It is mandatory for the companies to conduct orientation programmes for all prospective direct sellers
- By means of these orientation programmes and other such programmes, it is essential to provide information to direct sellers on matters like:
  - Reasonable remuneration opportunities
  - All aspects of the direct selling operation
  - Other related rights and opportunities
- The Direct Selling Entities are required to notify and provide a full refund or buy-back guarantee to every direct seller on reasonable commercial terms, which can be exercised within a period of 30 days, from the date of the distribution of the goods or services to the direct seller.
- The Direct Selling Entities are also required to notify and provide to every direct seller a cooling-off period, which entitles such direct seller to return any goods/services purchased by the direct seller during the cooling-off period.

**2. Conduct a Direct Selling Business:**

- The Direct Selling entities are required to maintain proper records of their business dealings with complete information about goods, services, terms of contract, price, income plan, details of direct sellers, etc.
- These entities are required to issue adequate and proper identity documents to its Direct Sellers
- The entity must also provide to all Direct Sellers their periodic account / information concerning, as applicable, sales, purchases, details of earnings, commissions, bonus and other relevant data, in accordance with agreement with the direct sellers. All financial dues shall be paid and any withholding made in a commercially reasonable manner.
- The entity is also required to monitor the value of purchases done by its Direct Sellers/distributors and intimate them to pay VAT, in case the purchase value crosses VAT threshold. This monitoring should be done on a monthly basis.
- The guidelines also prohibit the Direct Selling entity from using any misleading, deceptive or unfair practice, making factual representations which cannot be verified, present any advantages of direct selling to any prospective direct seller in a false or deceptive manner or engage in any activity of a similar manner.

38.Standing Committee on Finance (2015-16) report - Efficacy of regulation of Collective Investment Schemes (CIS), Chit funds, etc.; Retrieved on 21st Oct 2016

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- These entities cannot force the direct sellers to pay any money by way of minimum monthly subscription or renewal charges.

**3. Obligation of Direct Sellers:**

- The direct sellers are required to carry suitable identity cards and should not visit the customer's premises without prior appointment or approval
- At the initiation of a sales representation, without request, the Direct Seller should truthfully and clearly identify themselves, the identity of the Direct Selling entity, the nature of the goods or services sold and the purpose of the solicitation to the prospective consumer
- The direct seller should offer a prospective consumer accurate and complete explanations and demonstrations of goods and services, prices, credit terms, terms of payment, return policies, terms of guarantee, after-sales service
- A direct seller should also keep books of accounts stating the details of the products, price, tax and quantity and other details regarding good sold by him/her.

**4. Relationship between Direct Selling entity and Direct Seller:**

- The relationship between a Direct Selling entity and a Direct Seller shall be governed by a written agreement consisting of all the rights and obligations. All rights and obligations shall be determined as per the express terms of written agreement between a Direct Selling entity and Direct Seller.
- The guidelines hold the Direct Selling entity responsible for monitoring and controlling the practices and methods adopted by the Direct Sellers. The Direct Selling entity shall be held liable for any grievances arising out of sale of any product or service.

**5. Conduct for Protection of Consumer:**

- The Direct Selling entity and the Direct Seller are required to take appropriate steps to ensure security of client data and shall by guided by the Consumer Protection Act
- The entities should ensure that all complaints received over phone, email, website, post and walk-in should have a complaint number for tracing and tracking the complaint and record time taken for redressal
- The Direct Selling entity shall provide information to the consumer upon purchase which shall contain:
  - The name of the purchaser and seller;
  - The delivery date of goods or services;
  - Procedures for returning the goods; and
  - Warranty of the goods and exchange/replacement of goods in case of defect, provided that no Direct Seller shall, in pursuance of a sale, make any claim that is not consistent with claims authorised by the Direct Selling entity.

## Impact on Direct Selling companies

The Direct Selling Guidelines 2016 have been welcomed by the Direct Selling industry with open arms. According to industry experts, a clear definition of Direct Selling by the Government will help Government bodies, investigating agencies and consumers differentiate between legitimate businesses and ponzi schemes. Investigating agencies and regulatory bodies will be able to identify and weed out fraudulent players from the market. These guidelines will ensure consumer protection and will help major players prevent the unauthorised sale of their products on e-commerce platforms.

The guidelines are essentially an accumulation of existing company policies in the sector since they are already being practised by largely all Direct Selling companies in India, thereby granting their existing operations credibility. This will further boost investor confidence and attract investors and foreign players to the Indian market. On the demand side, it shall attract more distributors to be a part of the Direct Selling industry, leading to wider reach and growth of the industry. It will safeguard the interests of the distributors and reduce any hesitation among people when they join the industry. By giving credibility to the business practice, the risk of harassment of distributors will subside, thus inviting more women to be part of the workforce.

However, ratification of these guidelines into a statutory regulation is the necessary next step. Since the sector hasn't been given due recognition up until now, awareness of the Direct Selling business model needs to be created amongst consumers, media and Government bodies. Subsequently, greater refinement of these guidelines is required to clearly define the scope of the industry. One of the challenges with respect to these guidelines has been the condition of maintaining complete details of the sellers. Since the network is large, and spread across the country, documenting all records is a cumbersome and time-consuming process. However, since a time lag is expected by the industry for the regulation to be ratified, the Direct Selling companies get sufficient time to be in 100 per cent compliance of the conditions set in the guidelines. The guidelines set a clear indicator of what can be expected from the proposed regulation.

While the guidelines have been harbingers of hope for the Direct Selling industry in terms of recognition and protection, there are certain challenges that the industry continues to face.

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# Challenges in the Direct Selling industry and the way forward



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Similar to the traditional consumer industries, the Direct Selling industry faces challenges in terms of setting of manufacturing facilities, dealing with import duties, etc. However, one of the most daunting concerns for the industry had been the lack of regulatory clarity. The Direct Selling Guidelines 2016 have brought about a clear definition of Direct Selling and have helped in differentiating between legitimate practices and illegal Ponzi schemes. To provide a conducive and sustainable operating environment for the Direct Selling companies, further reforms are required including ratification of the Direct Selling Guidelines 2016 and the setup of a specific nodal ministry / regulatory body for the sector.

## Need to streamline FDI policy

The operating structure of many Direct Selling companies is similar to a wholesale cash and carry trade, where products are sold by manufacturers (usually Direct Selling companies) to distributors entailing sale to end customers. Indian regulators should classify Direct Selling as a 'whole sale cash and carry trade' with 100 per cent foreign investment under the automatic or government approval route.

## Need for a governing legislation

At the Central level, Ministry of Consumer Affairs will monitor the Direct Selling industry, while the states have to put in place a regulatory mechanism for the same. Ratification of these guidelines into statutory regulation is a necessary next step, without which, enforceability of these guidelines will be difficult to maintain.

## Need for a nodal ministry

The Ministry of Consumer Affairs has issued the Direct Selling guidelines 2016 and will monitor the industry at the Central level, while various state governments will be involved at the state level. A single nodal regulatory body on the lines of TRAI and IRDA could be formed for monitoring the activities of the Direct Selling companies and paying close attention to the grievances of this sector. This will ensure smooth performance of this sector in the long term.

Even though regulations in Direct Selling in India can be further streamlined, the introduction of the Direct Selling Guidelines 2016 is an unprecedented and huge contribution towards strengthening the sector. The expected ratification of the guidelines, the growth of consumerism in the country and the launch of various schemes by the Government of India, that are in sync with the operations and objectives of Direct Selling companies, together provide abundant opportunity to the Direct Selling companies to prosper.



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# Glossary

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| ASSOCHAM | Associated Chambers of Commerce of India |
| AYUSH | Ayurveda, Yoga, Naturopathy, Unani, Siddha and Homoeopathy |
| BPM | Business Process Management |
| CAGR | Compounded Annual Growth Rate |
| CII | Confederation of Indian Industry |
| CIPAM | Cell for IPR Promotion & Management |
| CPA | Consumer Protection Act |
| CSR | Corporate Social Responsibility |
| DFS | Department of Financial Services |
| FDSA | Federation of Direct Selling Association |
| FICCI | Federation of Indian Chambers of Commerce and Industry |
| FMCG | Fast Moving Consumer Goods |
| GDP | Gross Domestic Product |
| IDSA | Indian Direct Selling Association |
| IICA | Indian Institute of Corporate Affairs |
| IMC | Inter-Ministerial Committee |
| INR | Indian National Rupee |
| IP | Intellectual Property |
| IPR | Intellectual Property Rights |
| IRDA | Insurance Regulatory and Development Authority |
| IT | Information Technology |
| KYC | Know Your Customer |
| LMIS | Labour Market Information System |
| MNC | Multi National Corporation |
| MoFPI | Ministry of Food Processing Industries |
| MSME | Micro Small and Medium Enterprise |
| NABARD | National Bank for Agriculture and Rural Development |
| NAM | National AYUSH Mission |
| OBM | Opportunity Business Meeting |
| PHDCC | PHD Chamber of Commerce |
| PSL | Primary Sector Lending |
| R&D | Research and Development |
| SHG | Self Help Group |
| SME | Small and Medium Enterprise |
| TRAI | Telecom Regulatory Authority of India |
| USA | United States of America |
| UT | Union Territory |
| VAT | Value Added Tax |
| YoY | Year on year |

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