

Executive Summary

Direct selling continues to maintain a strong growth trajectory

At INR 4,120 crores (US\$915 million¹) for FY09–10, the industry displayed a robust 24% growth over the previous year (2009) of which the organized sector accounted for INR3750 crores (US\$835 million) and the unorganized sector INR370 crores (US\$80 million), increasing from INR 3,027 crores (US\$670 million) and INR303 crores (US\$65 million), respectively in 2009. Major players in the market believe that India, with its large population and increasing per capita income, presents an attractive opportunity for companies to expand their footprint.

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

Companies are increasing product coverage to boost revenues

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

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

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

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

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

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

Growth in direct selling is expected to continue being driven by the emerging markets in tier-I and tier-II cities. With increasing income levels, these emerging markets provide a substantial base of households for direct selling companies to target and thereby drive future growth.

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

From an overall perspective, growth prospects of the direct selling industry in India remain robust. On the demand side, an increase in consumption of consumer goods of the average Indian, coupled with the rising awareness of health and wellness among Indian households is a key growth driver. The value perception of customers is also

¹ US\$1=INR45

changing with customers increasingly looking for quality products that add value and are willing to pay a premium for them. Increasing capital investment on the supply side, with companies venturing into multiple product categories is also expected to drive growth. In light of these factors, the industry remains on track to reach an estimated market size of INR7,120 crores (US\$1,580 million) by 2012–13, growing at a CAGR of more than 20%.

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

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

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

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

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

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

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

Retaining quality human resources and constantly motivating them is a key challenge that companies in the direct selling space are facing today. The problem is further compounded by the fact that very often individuals leave networks taking entire teams of people with them. This leads to greater costs such as the ones due to repeated training requirements.

Commoditization of products is also increasing due to increasing availability of products through indirect selling channels. The increasing awareness, driven by this trend, also undermines the need for product demonstrations – earlier the USP of this industry.

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

Stakeholders need to continue interacting with the Government to ensure mitigation of challenges faced due to lack of regulations and barrier to entry. A continuous focus on spreading awareness about this industry must also be maintained. Companies need to continue building trust and lasting relationships with customers to enlist long-term customers who will remain loyal to the brand in a market where choices are plenty. In this endeavor, companies need to focus on developing and selling differentiated products that address customer issues and can leverage the power of modern tools such as mobile and internet connectivity to reach out to customers. Companies also need to focus on building human capital to improve prospects of sales consultants in the industry and reduce attrition. This will have a direct impact on the bottom line of companies. The effective addressing of these issues will help the industry to continue on a track of robust growth to create societal benefit and achieve its full potential.
