

The Indian direct selling industry: Annual Survey 2010-11 Expanding Horizons...

(Executive Summary)

The Indian direct selling industry has scaled remarkable growth over the years and has been expanding its horizons in India as a rapidly emerging alternate distribution channel. The direct selling industry has grown at 27% during 2010-11, expanding from INR 41200 million in 2009-10 to INR 52294 million in 2010-11. The robust growth in the segment has been contributed by 28% growth in organised and 17% growth in the unorganized segments of the industry during 2010-11. The industry grew at 24% during 2009-10, 17% during 2008-09, 13% during 2007-08 and 9% during 2006-07.

Ever since the country has embarked upon the ambitious economic reforms programme since 1991, the growth trajectory has undergone a quantum jump. With the increase in growth rate and per capita income, the growth of urbanization and middle class population became visible. The Indian consumer market also grew by leaps and bounds and this growing unsaturated market attracted many Indian and foreign companies to invest in India. These companies are now trying to reach consumers through different channels of distribution, marketing and advertising. Direct selling is one such distribution channel which is fast catching up in the country.

Direct selling is the process by which products/services are marketed directly to the consumers generally in their homes, homes of others, at their workplace or at places apart from retail locations, through demonstration of the products by a direct seller. Companies venture into direct selling because it is effective and economic in many respects helping them save channel costs and costs of advertising. On the other hand, direct selling has been found to be appealing to consumers for its high quality standards and increased out reach. It helps cater to consumers who do not have easy access to retail stores.

The annual survey reveals that the concentration of sales of direct selling industry in the Southern region has now started diversifying to the other regions of the country. Due to large unexplored markets and emerging growth opportunities, the direct selling firms are now looking towards the vast consumer market for their products in the Northern region. The survey revealed that the share of Northern region in average turnover moved from 12% in 2009-10 to 15% in 2010-11 and on the contrary, average sales turnover of Southern region has reduced from 48% in 2009-10 to 44% in 2010-11.

The direct selling industry has contributed significantly to employment generation over the years. This year also, the momentum has been kept up. The total distributor base¹ of the Indian direct selling industry during 2010-11 stands at 3962522, marking a growth of around 24%. Out of this, 3204522 distributors have been employed by member companies² generating a growth of 25% and 758000 distributors have been employed by the non-member companies generating a growth of 22% employment.

Over the decade it has been noticed across nations that in the direct selling business, women have been playing an active role. The share of women employees have always been more than 50% in India. However, with rising cost of living especially in metro cities, Indian men are also looking up to this sector as an earning opportunity, as the consumption expenditure has swelled up over the years. The survey revealed that the employment among men has picked up rapidly who are not only looking at this sector

¹ Distributors include sales force, sales representatives and agents

² Member companies refer to members of Indian Direct Selling Association

as a part time, but a lucrative full time career option. The share of men (sales representatives) has increased from 32% in 2009-10 to 36% in 2010-11.

It was found that the chief source of awareness about direct selling products among consumers is friends. The word spreads from one circle of friends and acquaintances to the following related circle. However, relatives, colleagues and neighbours have also played an important role in the expansion of the business. The industry is exploring new opportunities using the social media tools and a lot of networking is going on the internet.

Out of the wide variety of product sold through the organised direct selling industry, products related to wellness contributed to the highest share of sales (40%) while cosmetics and personal care products (32%) were also very high in demand. Among other categories of product which have attracted the customers are home improvement (10%), home care products (8%) and household durables (8%). Food and beverages and other products capture 1% of total sales in the industry.

It was observed that the on an average, the direct selling firms earned profits of around 21% during the last three years. As per the survey, the main drivers of growth in this sector are high quality standards of products, reliability/durability, promotional schemes and good demonstrations, among others. It is interesting to note that the growth in tax collection from the direct selling firms has jumped to 28% in 2010-11 from 11% 2009-10 and 18% in 2008-09. The share of total taxes in total turnover of the industry has remained at around 10% over the last three years.

The Indian direct selling industry has contributed largely to the growth of Indian SME sector by way of outsourcing their manufacturing process to these enterprises in order to produce the products domestically. The companies own manufacturing facilities produce only 30-35% of the total produce, the remaining 65-70% are produced through contract manufacturers which are SMEs. It has been found that the demand for SMEs who are offered manufacturing contracts by the direct selling firms is rising, and so are the former are upgrading their manufacturing facilities with quality control mechanism, timely delivery orders. This has lead to expansion in output and employment generation among them, creating higher growth opportunities.

Going ahead, the growth prospects of the industry are bright which is set to take off driven by strong consumer base and expanding markets. The total sales of the industry is estimated to double by 2014-15 scaling upto INR 108436 million from the present level of INR 52294 million in 2010-11. Though the growth of the industry vary across its different segments like organized and unorganized sections, however, overall the industry is slated to grow at an average of more than 20% in the next four years.

The Indian direct selling industry is well poised to occupy an important position in the international market. However, at present the direct selling is challenged by hurdles like lengthy procedures related to registrations of the company, attaining and renewing licences, stamp duty and municipality zoning restrictions. In addition to this, the regulatory framework is overlapped by rules and regulations at district level, state level and central level. Hence, decentralization of acts and rules delay regulatory mechanism with loopholes. Moreover, clearances and grievances move across one authority to other which slows down the working procedure of the sector. Hence, the multi-agency clearance mechanism should be eliminated through speedy implementation of single window clearance facility to expedite the process of approvals. The government should provide incentives to the industry in terms of lowering costs of doing business which would be critical to foster employment generation vis-à-vis absorb expanding young work-force and rapid growth momentum in the sector.