

# Social and economic impacts of direct selling

Direct Selling Association  
of Australia Inc

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# Glossary

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ABS	Australian Bureau of Statistics
ACL	Australian Consumer Law
CGE	computable general equilibrium
DAE	Deloitte Access Economics
DSAA	Direct Selling Association of Australia Inc.
DSO	Direct Selling Organisation
FTE	full-time equivalent
GDP	gross domestic product
GNI	gross national income
ISP	Independent Sales Person
MLM	Multi-level marketing
NCC	National Credit Code
WFDSA	World Federation of Direct Selling Associations

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# Executive Summary

The Direct Selling Association of Australia commissioned Deloitte Access Economics to undertake an analysis of the social and economic dimensions of the direct selling industry. The aim of this report is to gather information about the nature, characteristics and performance of the direct selling industry in Australia. The purpose of this is:

- to inform DSAA's internal discussion and future planning;
- as a basis to make informed representations to regulators and all levels of government – the public, customers and the media;
- demonstrate the industry's contribution to the personal and small business development; and
- to give DSAA members valuable data for benchmarking their performance.

The retail industry in Australia encompasses a diverse range of businesses from online sole traders to large nation-wide department stores. Within this broad industry, direct selling is a distinct channel through which consumers purchase retail goods. The sector has recently been undergoing a period of adjustment. Competition is driving change in the industry, the result of the rise of online retail activity and increased competition from foreign companies selling into Australia.

Due to the lack of information on direct selling available, the DSAA commissioned this report to help improve understanding of the industry. The report's findings and analysis are based on two surveys and a review of available information. One survey was of DSAA member direct selling organisations (DSOs), while the second survey was of the independent sales people (ISPs) that sell the products. Customers not affiliated with the industry were not directly surveyed, although some information on customers was obtained from the other surveys.

## The nature of the direct selling business

Direct selling is the oldest model for retailers, if no longer the largest presence. Nonetheless, in Australia, it is estimated that around 478,000 independent sales people (ISPs) are associated with direct selling organisations (DSOs).

However, not much is known about the dimensions and nature of direct selling; it is not separately identified in official data and industry data sources are limited in coverage. The estimates in this report are based on independent surveys of DSAA members (36 respondents from 70 members) and ISPs (4,568 respondents representing 43 DSOs). The findings of this report are subject to the assumption that the survey responses are representative of the direct selling industry.

Further, the direct selling industry is much larger than the estimates in this report represent, this is a conservative estimate of the broader direct selling industry, which is itself part of the broader Australian retail environment.

While there are many similarities between the direct selling industry and the broader retail industry there are a number of important differences. In particular, there is a distinction between the relationship which exists between ISPs and DSOs (which is generally on a re-sell or contractor arrangement) and traditional retailers (who hire employees). In this way, ISPs are not employees of the DSOs in the same way retail workers in the broader industry are employed.



Direct selling is an alternative pathway through which consumers and sellers interact, while participating in the same activities as the broader retail industry; i.e. providing consumers with goods and services. The characteristics of direct selling which make it a separate and distinct aspect of the retail environment include:

- being primarily based on ISP-customer relationships, rather than one-off interactions;
- taking place away from traditional ‘bricks and mortar’ retail premises;
- involving sales people to train and manage a team of sales people beneath them (downlines) – in this sense ISPs are also small business owners; and
- utilising ISPs for a range of activities which are not typically associated with retail sales people, including being responsible for marketing and product promotion.

## The social contribution of direct selling

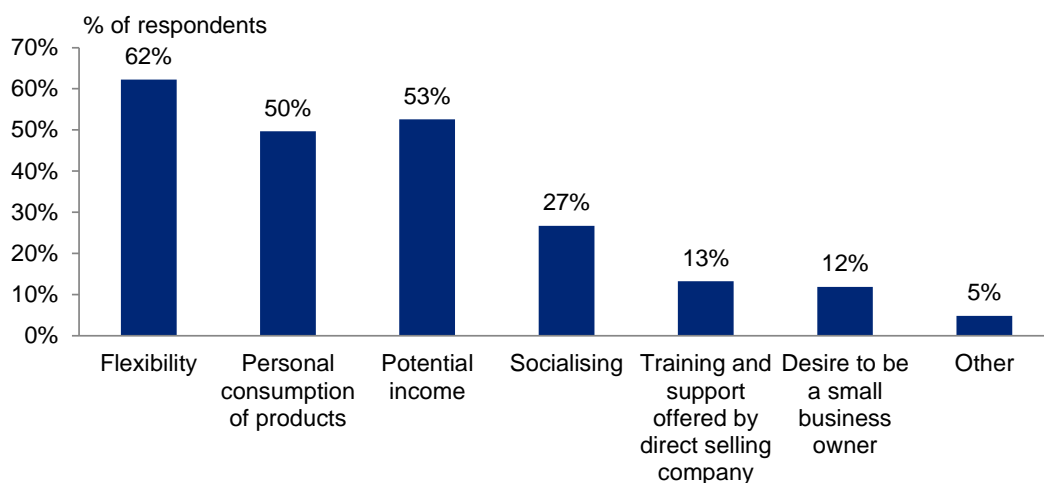
### The salesforce

The direct selling salesforce is predominantly female, although males are more in evidence in areas where there are opportunities to build their own business. The largest age group is between 25 and 45 years, although all age groups are represented. ISPs are active across Australia; while most reside within metropolitan regions there are many ISPs operating in regional Australia.

### Motivation, satisfaction and benefits for entering direct selling

There is a range of motivations for ISPs involvement in the direct selling industry, with flexibility and potential income to the fore (Chart i). Indeed, it is the ability to set your own hours as an independent ISP and the social aspects of direct selling through developing and maintaining relationships with customers which sets the direct selling industry apart from the broader retail environment. The ability to purchase products (often at wholesale prices) for their own consumption is also important.

**Chart i: Motivation for involvement in the industry**



Source: Deloitte Access Economics, ISP survey. Note: respondents were able to select more than one response.

Almost half of the ISPs surveyed cited improved self-confidence and the opportunity to improve both life and business skills were important benefits of working in direct selling. ISPs involved in direct selling were broadly satisfied with the industry:

- 46% of respondents rating their satisfaction with remuneration 7 out of 10 or higher, suggesting that income is meeting expectations;
- 68% rated their overall satisfaction as 7 out of 10 or higher.

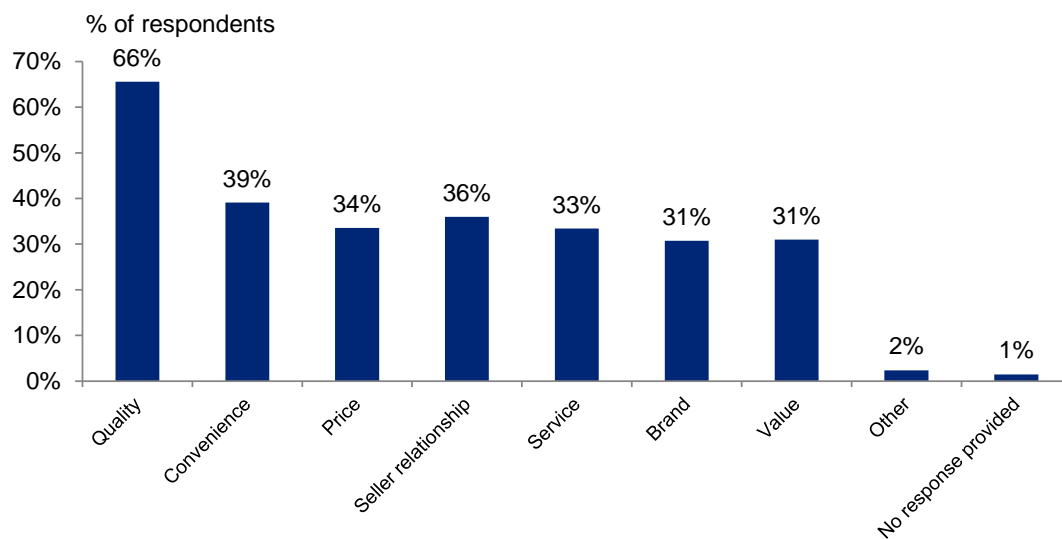
### Salesforce turnover

There are perceptions that the direct selling industry has high turnover of ISPs. The survey results show that around 40% of ISPs had been involved in the industry for more than 3 years – and only one third of ISPs had been involved in the industry for less than 1 year. This is comparable to the average turnover rate across all industries of 18.5% per annum in Australia, as estimated by the Australian Human Resources Institute in 2008.

### The customers

The age profile of ISPs is closely replicated in their customers, as family and friends are key markets for ISPs to sell into, especially for party plan models.

**Chart ii: Why ISPs believe their customers purchase their products**



Source: Deloitte Access Economics, ISP survey. Note: respondents were able to select more than one response.

Almost all (66%) of ISPs thought that the availability of quality products was a reason that retail customers purchased goods through the direct selling channel. The convenience of direct selling and competitive prices were also cited as important motivating factors.

## Economic contribution of the direct selling industry

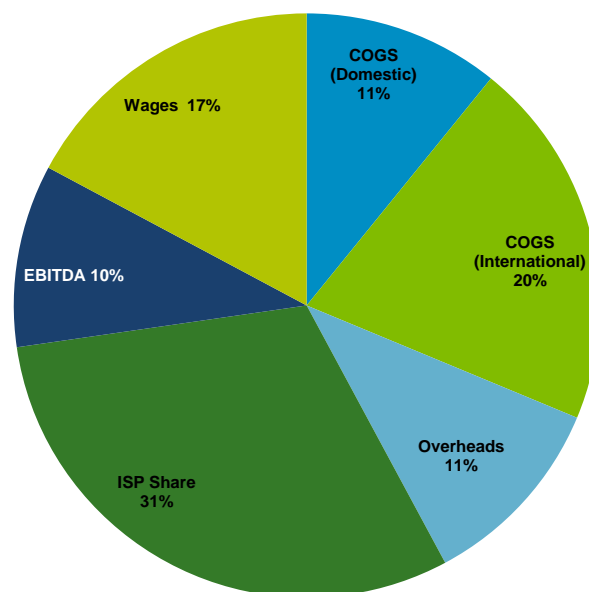
The direct selling industry makes an important economic contribution to Australia. Direct selling is an alternative to traditional bricks and mortar retail, and as such the industry encourages workforce participation, competition, innovation and choice.

Direct selling is a flexible means for those who may otherwise be disengaged with employment to enter the workforce. In this way the direct selling industry increases workforce participation and boosts productivity. The direct selling industry also provides additional income to individuals earning low incomes.

The economic contribution of the direct selling industry can be measured directly through revenue earned by the ISPs and wages paid to employees directly employed by DSOs in head office. In addition to this are the profits made by the DSOs and the taxation revenue that is received by governments. The impact on the Australian economy is broader than what is captured by the gross domestic product (GDP) and employment estimates. In particular, the direct selling industry encourages greater flexibility of the workforce, productivity improvements and increased labour supply, which provides additional benefits to the Australian economy.

The information described in the economic contribution is based only on DSAA members and ISPs affiliated with those members. This does not take into account any other firms or individuals operating in the industry in Australia and who are not members of the DSAA and therefore will underestimate the true size of the industry. That is, the direct selling industry is much larger than the estimates in this report represent, this is a conservative estimate of the broader direct selling industry, which is part of a broader retail environment. DSAA members' revenue, from wholesale sales, in 2012 is estimated to be more than \$1.1 billion. Around one third of this revenue is paid to ISPs, with a further 17% paid as wages to DSO employees. Around 30% is taken up by the cost of goods sold (COGS).

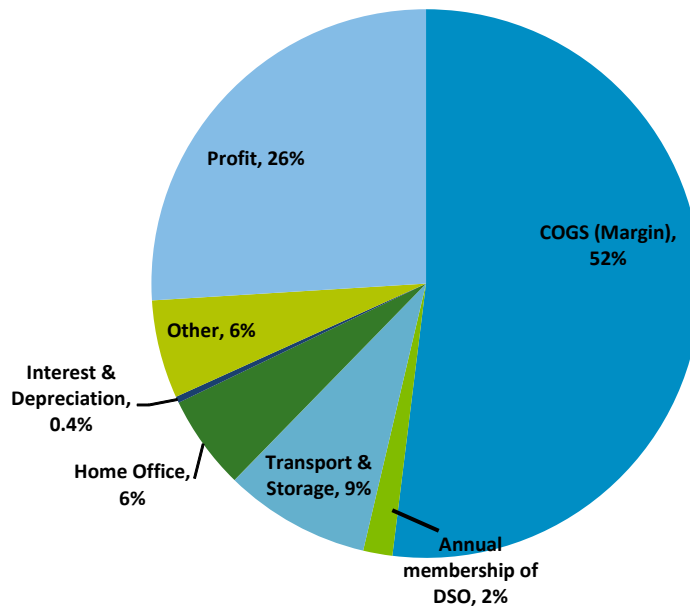
Chart iii: Average DSO revenue, 2012



Source: Deloitte Access Economics calculations

The revenue of ISPs in 2012, from retail sales, is estimated to be almost \$1.5 billion. Income is split roughly evenly between direct sales and commissions. ISPs retain roughly one quarter of revenue and outlay around half on cost of goods sold.

**Chart iv: Total Revenue split for the average Australian ISP, 2012**



Source: Deloitte Access Economics calculations

There is also an indirect economic contribution, which captures flow on effects from the direct selling industry to associated industries (such as the Transport support services and Storage industry, the Professional, Scientific and Technical Services industry and Manufacturing) which supply goods and services to the direct selling industry. In this respect, the additional employment generated, and addition to gross output, is similar to other retail models.

The key elements of the economic contribution of direct selling are presented below.

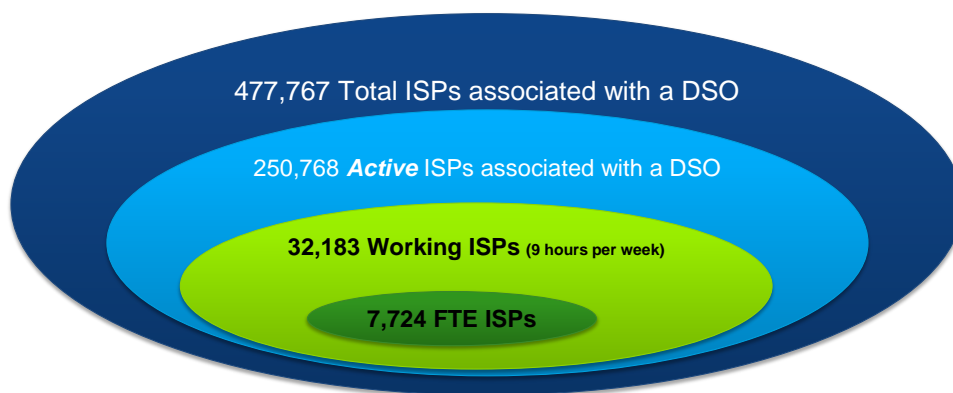
**Table i: Economic contribution of the direct selling industry**

<b>Direct contribution</b>	
Direct value added (\$ million)	687
Direct employment (FTE)	9,995
<b>Indirect contribution</b>	
Value added (\$ million)	478
Employment (FTE)	2,395
<b>Total contribution</b>	
Value Added (\$ million)	1,165
Employment (FTE)	12,390

Source: Deloitte Access Economics calculations

At the end of 2012, the DSO surveys suggest there were almost 478,000 ISPs registered with DSOs, of which 250,000 were active. Active ISPs are defined as ISPs who made a sale in the last 3 months, working ISPs are those who spend at least 9 hours per week on direct selling activities. Many of these ISPs purchase the goods for their own consumption and don't work any hours during the week. There are 7,700 FTE ISPs that work 37.5 hours a week, but based on the 9 hours per week survey average, there are over 32,000 ISPs working.

**Chart v: ISPs in the direct selling industry, 2012**



Source: Deloitte Access Economics calculations

## Challenges for the industry

### Regulation

The DSAA is concerned about regulation of the industry, which it believes is more onerous for direct selling than for other retail models. In particular, the DSAA points out that additional consumer protection regulation and rules applying to introducing new products unduly affect direct sellers.

The regulatory burden faced by the direct selling industry relative to other Australian retailers affects the capacity of the industry to compete on a level playing field.

- The Australian Consumer Law requires that the direct selling industry comply with more onerous rules for trading than other Australian retailers. This ranges from regulating transactions away from fixed premises to longer cooling off rights. This is despite protections for consumers which are inherent in general legislation applying to all retail businesses.

- The direct selling industry faces its own set of circumstances that often make compliance with regulations unduly burdensome. The DSAA believes that there are issues with the complexity and amount of regulation at both the transaction and product level. Some of these regulations such as ensuring that goods pass Therapeutic Goods Administration (TGA) requirements are particularly difficult for smaller companies. Compliance of products with Australian regulations which are sourced from overseas can also be time consuming and costly.

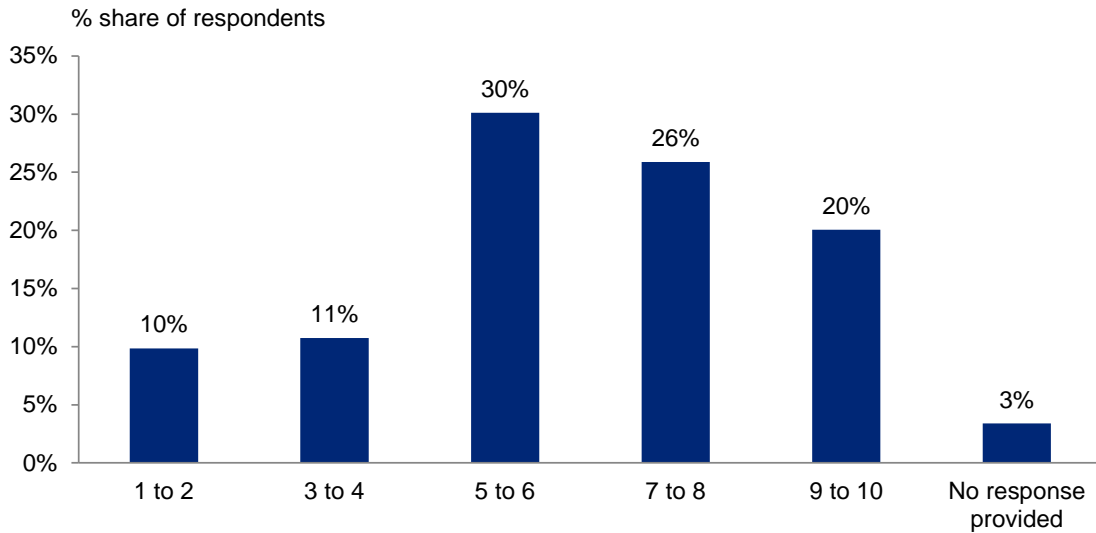
## Public perceptions

There is a history of negative reactions to the way the industry was perceived in previous decades and persistence of negative stereotypes in some parts of the media and, perhaps, amongst government and regulators. However the industry has changed and developed in more recent times.

In particular, there is a belief that the industry is involved in high pressure selling and that the multi-level structure for remuneration, which is widely utilised throughout the industry, is akin to a pyramid scheme. These negative public perceptions continue to concern those involved in the direct selling industry.

- Perceptions of direct selling being linked to pyramid selling were noted in both consultations and the survey as an ongoing concern for the industry. However, evidence suggests these perceptions are misplaced.
  - A majority (75%) of ISPs do not manage a downline, a prerequisite for pyramid selling
  - Over half of ISPs purchased goods for their own use – not to on sell to other consumers.
- Further, the key considerations for pyramid selling are what it costs to join, whether the cost represents real value to the ISP, whether consumers are able to discern product value in quality and price, and whether reward from downline activity is the result of sales, and not recruitment. Indeed, ISPs involved in the industry are broadly satisfied with their earnings from the industry (Chart vi).
- While high pressure selling has been a concern for regulators, and may be the motivation for some of the increased regulatory burden placed on the industry, based on the available evidence it does not appear to be an issue for consumers who are purchasing products through direct selling channels.
  - ISPs report that most complaints that are received relate to the quality of the product and delivery times, rather than aspects of the transaction between ISP and consumer.
  - A search of state and commonwealth government websites failed to turn up any official data on the number of complaints by customers against direct selling retailers or comparisons between direct selling and other industries.

**Chart vi: Satisfaction with remuneration**

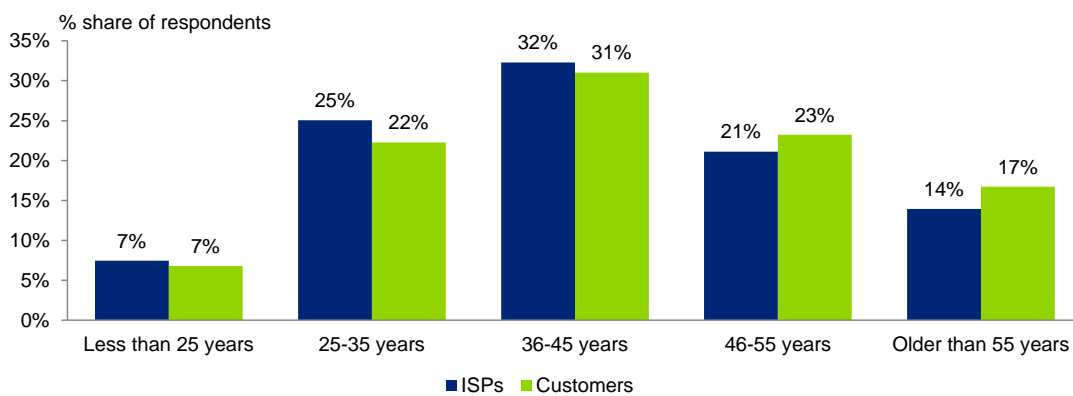


Source: Deloitte Access Economics, ISP survey. Note: The question asked respondents to indicate their satisfaction with remuneration plans on a scale of 1 to 10 with 10 indicating the highest level of satisfaction.

### Demographic change

Australia is undergoing a demographic shift. While the direct selling industry is often associated with older generations and not attractive to younger cohorts, in particular Gen Y's, this is not an accurate reflection of the industry. Chart vii demonstrates that around 65% of ISPs in the industry are less than 45 years old. This is comparable to the age profile apparent in Australia in 2012 (61% less than 45 years old) (ABS, Cat No 3235.0). The younger generations of ISPs already in the industry – and the customers they sell to – will become more important as Australia's ageing population moves towards retirement.

**Chart vii: Comparison of age**



Source: Deloitte Access Economics, ISP survey.

Further, the structure of payments in the industry means that ISPs are able to continue to earn income after ISPs have retired from the workforce. This is a key differentiating feature of the direct selling industry.

## Online retail

Like demographic change, online retail presents a significant opportunity for the industry. It will be necessary that the industry proactively adapt to the changes that the rise of online retail has already and will continue to bring. Indeed, consultations suggested that members of the DSAA have already begun make use of a range of digital applications, supporting and complementing face-to-face selling with online ordering and payment facilities.

- The importance of online and digital technologies was highlighted by DSOs through the survey. For example in response to a question regarding opportunities for the industry, responses included,

*Technology advancements with smart phones and tablets will provide an enhanced selling environment while reducing double handling by our salesforce.*

*Leverage other channels tied into the consultant, i.e. Internet, technology, digital marketing to stimulate growth*

The focus on face-to-face relationship selling, a key tenet of the direct selling industry, will be tested by the move towards more online interactions. It will be the ability to adapt to technological change which will be important to remaining a viable retail alternative.



## Conclusion

The direct selling industry is a distinct part of the Australian retail environment that makes a significant economic and social contribution to the country. A lack of understanding of direct selling – stemming from a dearth of information about the DSOs, ISPs and their customers – is making it difficult for the industry to show that negative perceptions and additional regulation are unwarranted.

At the same time, the industry needs to better understand itself, to deal with issues such as demographic change and technological advances that will be important for its future growth.

This report marks the beginning of assembling a database which will help the industry to deal with some of these issues. Over time, it will be important for the coverage to be extended to include more DSOs and ISPs and directly to survey customers, including those not affiliated with the DSAA. Ideally, official statistical agencies would collate and publish accurate information on the dimensions and nature of direct selling to better inform the public and policy makers about the industry. Until then, there are outstanding questions that this report has not addressed; instead this report has provided the starting point for a better understanding of direct selling in Australia.

### Deloitte Access Economics



# 1 Background

In Australia, many direct selling organisations (DSO) are represented by the Direct Selling Association of Australia Inc (DSAA). The DSAA aims to ensure that its members are aware of their role in the Australian retail industry, as well as to ensure that the regulatory environment that DSAA members operate within is appropriate for the industry.

The DSAA gathers information about the nature, characteristics and performance of the direct selling industry in Australia, to inform its planning and decision making. In this context, Deloitte Access Economics (DAE) was engaged to undertake an analysis of the social and economic dimensions of the direct selling industry:

- to inform DSAA internal discussion and future planning;
- as a basis to make informed representations to regulators and all levels of government – the public, customers and the media;
- demonstrate the industry’s contribution to personal and small business development; and
- to provide DSAA members with data for benchmarking their performance.

The estimates in this report are based on independent surveys of DSAA members (36 respondents from around 70 members) and ISPs (4,568 respondents representing 43 DSOs). The findings of this report are subject to the assumption that the survey responses are representative of the direct selling industry.

The membership of the DSAA includes a diverse mix of foreign owned (63%) and Australian companies, and includes small (56%) and medium (42%) and large size businesses (4%)<sup>1</sup>. Further, the estimates in this report represent that share of the sector that are members of the DSAA. That is, the direct selling industry is certainly much larger than the estimates in this report represent, this is a conservative estimate of the broader direct selling industry, which is itself part of the broader Australian retail environment.

## 1.1 What is direct selling?

The retail industry in Australia encompasses a diverse range of businesses, from online sole traders to large nation-wide department stores. Within this broad industry, direct selling is a distinct channel through which consumers purchase retail goods. The sector has recently been undergoing a period of adjustment, the result of the rise of online retail activity and increased competition from foreign companies selling into Australia.<sup>2</sup>

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<sup>1</sup> For statistical purposes, the Australian Bureau of Statistics (ABS) defines a small business as an actively trading business with 0–19 employees. The ABS defines a medium-sized business as an actively trading business with 20–199 employees, and a large business as an actively trading business with 200 or more employees.

<sup>2</sup> For example, recent foreign companies to establish shop fronts in Australia include United States Homeware chains Williams Sonoma, Pottery Barn and West Elm. Competition is largely being driven by foreign owned fashion retailers including Zara and Topshop.

There is inadequate measurement and understanding of the social and economic contribution of the direct selling industry. This unfavourable situation exists both nationally and internationally. Currently, the Australian Bureau of Statistics (ABS) does not include direct selling activities as a separate component of its retail trade publication. Instead, it is classified as part of the '*Non-store retailing for retailers of goods without a physical presence*'. Other retailers included in this category are internet retailing, milk trading and vending machine operation. Direct selling is clearly different from these other categories of retailing and therefore should not be categorised with these other aspects of retailing.

### 1.1.1 Defining direct selling

The definition of what constitutes 'direct selling' and how it can be differentiated from other retail channels is important for assessing the economic and social dimensions of the industry. The boundaries around direct selling need to be clear, to maximise the accuracy and consistency of data gathering and empirical analyses, but also robust enough to accommodate potential changes to direct selling in the future, e.g. due to technological innovation.

Early direct sellers were the original retailers, hawkers and pedlars selling goods door to door and with neighbouring communities. Indeed in some respects, direct selling has not changed since the days of the travelling salesman of old, as DSOs enjoyed relatively stronger sales in country areas, which reflects limited choice for consumers and the social aspect of party plans magnified by the greater distances between friends and family. Similarly, the characteristics which defined early direct selling, such as the close relationships between sellers and buyers continue to characterise the direct selling industry today.

More recently direct selling has been recognised as non-store physical selling through doorstep, network marketing and party plan methods. These methods, particularly network marketing and party plan are increasingly integrated, and direct selling business models invariably have elements of remote selling.

Increasingly technology and social media are playing a role in alternative methods for the distribution of goods and services. Today direct selling encompasses direct consumer contact that is face-to-face, via the telephone or over the internet.

The following definition of the direct selling industry was used throughout this project.

**Direct selling** is a channel of *distribution* of goods and services directly to the *consumer* (World Federation of Direct Selling, 2012), primarily through personal (seller to buyer) contact away from permanent retail locations, generally in a home, a workplace, or another neutral location (Peterson and Wortuba, 1996).

Other key definitions used are for the organisations, or firms, that provide the goods – the **direct selling organisations** (DSOs) and the consultants or distributors who sell the goods – the **independent sales people** (ISPs). A list of DSOs is provided in Appendix C.

Accurately describing the nature, characteristics and performance of Australian direct selling requires definition and measurement. This is challenging because DSAA does not represent the whole of Australia's direct selling industry, with other small and large operators using direct selling competing with DSAA members.

There are also retailers that have a direct selling presence that would not be quantifiable from financial reports. There are companies that complement their traditional “*bricks and mortar*” distribution of products with doorstop selling models. Many other retailers and service providers may use personal contact with customers and experience selling as part of their marketing and customer contact techniques. Frost and Sullivan (2012) describe the broad nature of door-to-door selling in Australia, encompassing:

- energy (electricity and / or gas supply);
- pay TV services;
- telecommunications (especially fixed line telephony and broadband);
- media (particularly newspaper subscriptions);
- solar energy (especially solar panels); and
- others (including home appliances, home insulation, security systems, educational software, club memberships, photography, first aid products).

Indeed, it has been estimated that the energy industry made around one million sales via the direct selling method in 2011, while the telecommunications industry made a further 138,000 sales through this channel (Frost and Sullivan, 2012).

It is difficult to establish the true penetration of these methods. Hence, the measurement of DSAA member activity in this study will be indicative, but not definitive, of the channel’s Australian presence. That is, the size and scope of the direct selling industry in Australia is greater than the estimated dimensions presented in this report.

## 1.2 Motivations and aims for this report

The primary objectives of the project are to inform DSAA’s policy and broader educational activity. The study aims to position the channel’s social and economic contribution in an increasingly integrated retail environment. Retail ownership and distribution systems are diverse. Ownership ranges from small unincorporated traders to large, often transnational, entities. At distribution levels, retailing is conducted physically or remotely. Physical selling occurs in store and non-store settings. Non-physical, remote, selling has many forms and is increasingly undertaken in an online environment.

There are five key motivations and aims for this report.

1. The DSAA is concerned that recent regulation, notably the Australian Consumer Law (ACL), is unduly prescriptive, uncertain and inappropriate for the direct selling industry, significantly restricting competition and consumer choice in the retail industry, especially the provisions related to ‘unsolicited selling’. There is seen to be a window of opportunity for a review of the ACL in the next few years, with a possibility for change to a principles-based approach. To do so, the DSAA needs to show that direct selling organisations, as defined by their (DSAA’s) membership, are synonymous with and should be treated the same as traditional retailers.
2. DSAA wants to make it clear that direct selling is a traditional industry – in fact, the very first retail model. It is noted that direct selling is not pyramid selling; high-pressure selling is not part of the model; and there is a lack of evidence direct selling gets a lot of complaints. Further, like other retailers, direct selling is affected by changing consumer behaviour related to demographic change and the impacts of digital technology. Ironically, faced with these challenges, the holy grail for big retail is ‘relationships with customers’ and ‘experiential

selling'; in fact, these are the cornerstones of the direct selling model (and of the local shopping strip that has been replaced by big retail).

3. DSAA is concerned that the importance of the industry, including its social significance, is not recognised by government agencies. For example, the Australian Bureau of Statistics (ABS) fails to separately account for the industry in the official retail trade publication. DSAA wants to emphasise the social benefits of the direct selling model to the ISPs (and customers); the demographics of the salesforce; an avenue (back) into the workforce or to building a business; relationships with customers and; training.
4. DSAA is also mindful that there is not much known about the economic contribution of the direct selling industry. As such, it seeks an economic contribution study which, along with the relevant salesforce data will make legislators and other decision makers aware of its value and importance to the economy.
5. DSAA sees this as a landmark which will enable additional themes for research to be undertaken that further explores the nature, contribution and benefits of direct selling in Australia.

## 1.3 Approach and methodology

Outlined below are the phases of this research project and the associated methodology.

### 1.3.1 Scoping Study

A scoping study was conducted to develop a framework for the surveys and social and economic impact analysis of direct selling in Australia. It comprised:

- establishing a framework for the current research and for future analysis;
- a literature review of publically available local and international information on the direct selling industry (Appendix D);
- gathering of publicly available data with a focus on maintaining consistency with ABS data, including the broader retail industry;
- consulting with stakeholders including the DSAA and a cross section of direct selling organisations;
- identifying gaps in knowledge about the direct selling industry by the general public and policy makers; and
- identifying the key themes to be addressed in the project.

### 1.3.2 Surveys

The survey phase involved an online survey of direct selling organisations and independent sales people, to fill in the gaps identified in the initial phase of the project. The development and testing of the surveys was undertaken as part of the scoping study.

Two surveys were undertaken; a more detailed description of the surveys is outlined in Appendix A. Responses were received from 36 of the 70 DSAA members and 4,568 ISPs representing 43 DSOs.

### 1.3.2.1 DSO survey

Ideally, the survey would be a census of all direct selling activities in Australia. However, not all DSOs in Australia are members of the DSAA and not all DSAA members completed the survey. Nevertheless, the DSOs that responded represent a significant sample of the overall industry – spanning different selling techniques, size of organisations and products sold. The results of the survey are confidential and responses have been de-identified.

With the help of the DSAA all members of the association were given the opportunity to complete the survey. The aim of the survey was to fill the existing data gaps and provide an ongoing evidence base for the direct selling industry. As part of this the surveys aimed to: gather the information necessary to place direct selling within the broader retail landscape; obtain a profile of the industry and to test negative perceptions of the industry; understand the relationship between DSOs and sales people and final customers; and to gain an understanding of the regulatory environment facing DSOs.

### 1.3.2.2 ISP survey

With the help of both the DSAA and the association member DSOs, the ISP survey was distributed to a significant share of the salesforce of the DSOs. The aim of the ISP survey was to understand: the demographic profile of ISPs in the direct selling industry; the motivations of ISPs for their involvement in the industry; and the participation and benefits of being in the industry.

### 1.3.3 Economic contribution

The financial data from both DSOs and ISPs was compared and cross referenced to work out the dimensions of the industry. Additional information on revenue of all DSAA members was used to gross the numbers up to a more representative industry total. However, DSOs and ISPs outside of the DSAA membership were not accounted for in the estimates.

### 1.3.4 Contents of the report

Background research showed interests of the key stakeholders in the industry – the firms (DSOs), distributors (ISPs) and customers – are often closely intertwined. For example, ISPs are engaged as independent contractors rather than as employees of a DSO. The result is that ISPs have autonomy over the day to day functions of their selling and business operations. The DSO retains control of quality assurance, intellectual property, and issues of brand and reputation (DSAA, 2012). For consumers, the distinction between ISPs and DSOs does not necessarily matter so much; for issues such as quality and reliability of the product purchased, they may be viewed as a single entity. Indeed the DSAA's Code of Practice which its members must comply with requires members to stand with their distributors in addressing any concerns with their products.

Consequently, the findings in this report have been organised according to a number of common themes. Each of these themes is addressed in more detail in the remainder of this report.

- Chapter 2 describes the **nature of the business**, essentially defining the place of direct selling in the retail landscape;
- Chapter 3 outlines the **social contribution** of the direct selling industry, and provides a profile of the sales force and customers in the industry; and

- Chapter 4 outlines the **economic contribution** of the direct selling industry in the Australian economy;
- **Challenges for the industry** are discussed in Chapter 5, including regulatory and other issues that affect the day-to-day activities and viability of the direct selling industry.
- Chapter 6 **concludes** with key messages about the social and economic contribution of direct selling and challenges the industry faces. The chapter also looks at outstanding issues that were not answered in this report and areas for future research.



## 2 The nature of the direct selling business

This chapter comprises a review of the most relevant literature and available data and a summary of consultations with selected DSOs. The data and literature review illustrated a number of key themes which characterise the direct selling industry. These are outlined in this chapter and include:

- direct selling is a legitimate retail niche in Australia, and more broadly around the world; and
- direct selling adds to the competitive retail environment in Australia, which benefits consumers and encourages innovation.

### 2.1 An alternative to mainstream retailing

Direct selling is an alternative pathway through which consumers and sellers interact. While participating in the same activities as the broader retail industry, providing consumers with goods and services, there are characteristics of direct selling which make it a separate and distinct aspect of the retail environment.

An independent sales person performs a similar function to the retailer in the traditional retail channel: the promotion, sale and distribution of goods to final consumers. However, the personal nature of this interaction is a key point of difference between the traditional and direct selling retail channels.

A second key point of difference is the involvement of a sales person in the training and management of a team of sales people beneath them. In this sense, some direct sellers move beyond basic retail selling to activities which are analogous to the owner of a small business or franchise owner.

The DSAA represents about 70 DSOs that access the retail market through the direct sales channel. There are also DSOs operating in Australia which may or may not be members of other DSAs but are not members of the DSAA. These DSOs could be considered as part of the Australian industry. Many of the larger members of the DSAA are US based organisations, with foreign owned companies accounting for 63% of the DSAA membership. Member organisations are predominantly classified as small businesses (56%) and medium businesses (42%) with less than 5%<sup>3</sup> of DSAA members classified as large businesses.

There are also an unknown number of organisations which are part of the direct selling industry, but who are not members of the DSAA. Identification of these organisations is difficult, because many are relatively small operations. However, this characteristic means that for the most part the industry is represented by the DSAA.

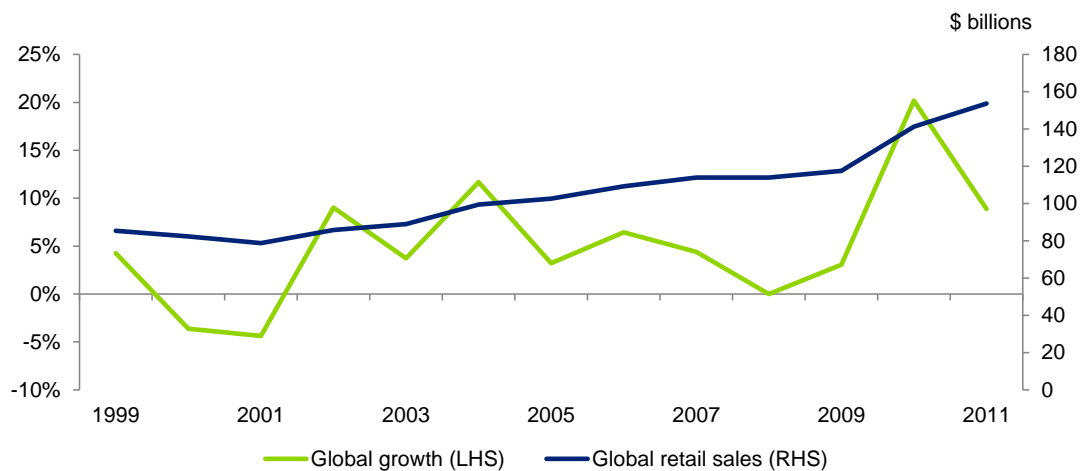
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<sup>3</sup> For statistical purposes, the Australian Bureau of Statistics (ABS) defines a small business as an actively trading business with 0–19 employees. The ABS defines a medium-sized business as an actively trading business with 20–199 employees, and a large business as an actively trading business with 200 or more employees.

Globally direct selling retail sales have increased significantly over the last ten years. Sales rose from around \$79 billion in 2001 to almost \$154 billion in 2011, an increase of 95% (Chart 2.1). Global sales growth has been positive since around 2002, this includes the period of global economic downturn around 2008-09. Over the period of the global financial crisis (between 2008 and 2009) retail sales in Australia grew by around 8% compared to growth over the previous two years of around 15% (Australian Bureau of Statistics, Cat No. 8501.0, 2013).

By 2011, global direct retail sales reached more than \$150 billion globally indicating that direct selling is a notable part of the global retail environment.

**Chart 2.1: Global Direct Retail Sales, 1998-2009**



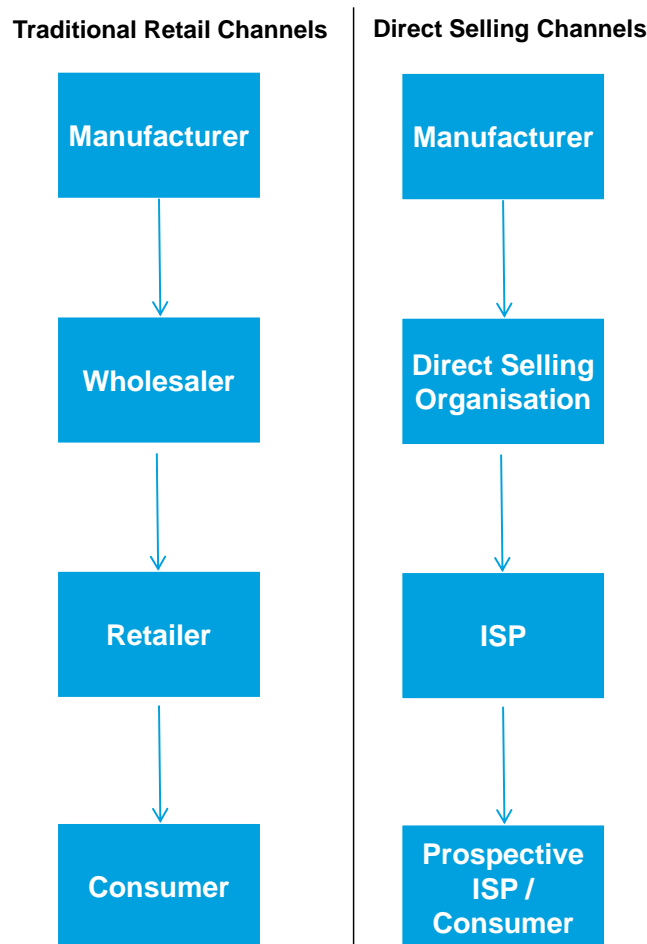
Source: WFDSA

## 2.2 The retail supply chain

Figure 2.1 demonstrates the similarities along the supply chain between traditional retail and direct selling. Where an independent sales person takes ownership of the goods and services being sold, they are comparable to the retailer in the traditional fixed-location retail channel (Peterson & Wotruba, 1996).

The basic supply chain of the direct selling industry is similar to the traditional retail channels, with some fundamental differences in the final interaction between consumers and direct sellers. For example, a consumer in the direct selling industry is also potentially a prospective direct seller themselves.

Figure 2.1: Retail supply chain



Source: DSAA, 2012

## 2.3 Organisational models

There are two main organisational models used in direct selling, illustrated in Figure 2.2. An explanation of the remuneration plans used in the different models is outlined in 3.1.4.

### Buy-resell model

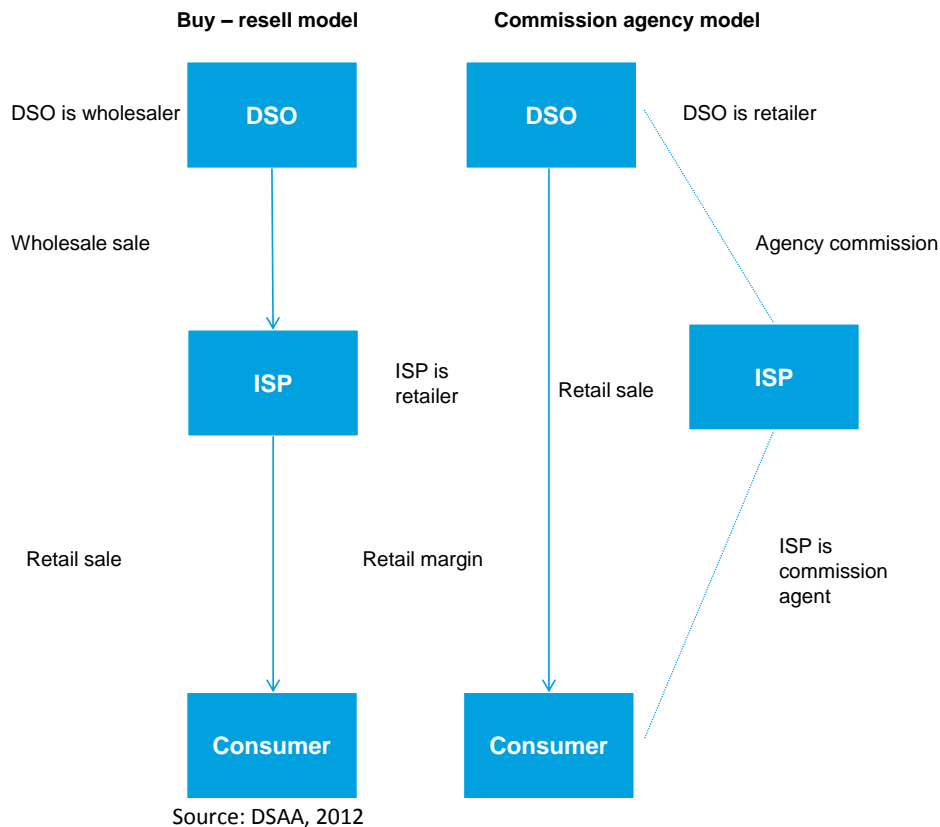
Under the buy-resell model the DSO sells goods to the ISP at the DSO's wholesale price. The ISP is then authorised to re-sell to the retail consumer, at a retail price that they choose (there are recommended retail prices, but the final price is set at the discretion of the ISP). The income earned by the ISP is the margin between the wholesale purchase price and the retail price (which is usually set according to the DSO recommendation), *plus* any commissions or bonuses payable under the DSO's compensation plan, *less* any costs incurred in selling (such as associated travel to events).

### Commission-agency model

The DSO appoints the ISP to act as an independent facilitator of the sale of goods or services, with the transaction taking place between the DSO and the retail consumer. For example, an ISP will sell a

product to a consumer and the DSO will then deliver the product to the customer without the ISP gaining legal title over the goods. Income earned by the ISP consists of the commission on the retail sale plus any other commissions or bonuses payable under the applicable compensation plan.

**Figure 2.2: Organisation of DSOs**



## 2.4 Direct selling organisations operational business models

DSOs in Australia operate according to one or more business methods:

- party plan;
- network marketing; and
- door-to-door/catalogue (direct marketing).

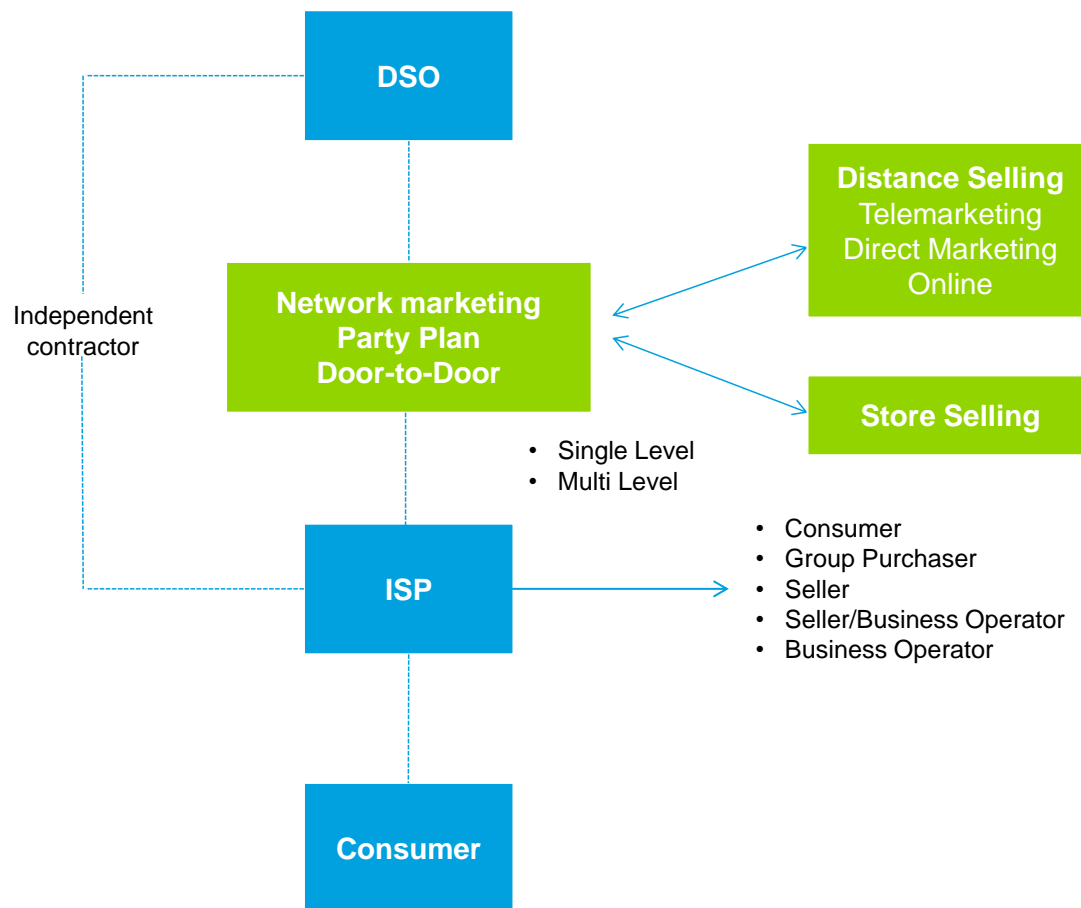
These methods would replace traditional or alternative retail methods such as in store selling or distance selling (see Figure 2.3).

**Party plan** is the most well-known direct selling model. This is where “parties” are used to generate sales of goods and services. Generally a prospective purchaser is invited to the home, workplace, or other setting by a host (who is not the ISP), with products then demonstrated by the ISP and sold to participants. Under this model, there is often a tiered compensation structure. Subsequent purchase of goods online is not uncommon with this method of direct selling.

**Network marketing** is a process in which ISPs rely on new or established relationships that result in the sale of products. These relationships are not confined to a home or workplace and introductions may be solicited or unsolicited. Similar to party plan, there is a tiered compensation structure for ISPs involved in network marketing; ISPs earn income through their sale of products and as a percentage of sales for ISPs who they have ‘sponsored’ (trained and recruited). The tiered structure can sometimes be across several levels.

**Door-to-door/catalogue** is the process where ISPs doorknock both prospective and existing customers, this is particularly the case for consumers living in rural and remote areas. This may involve the ISP delivering and picking up catalogues without any interaction with the consumer, and physical contact between the ISP and consumer might not take place until delivery of the product. Unlike the other direct selling methods door-to-door selling involves little, if any, recruitment activity by ISP’s.

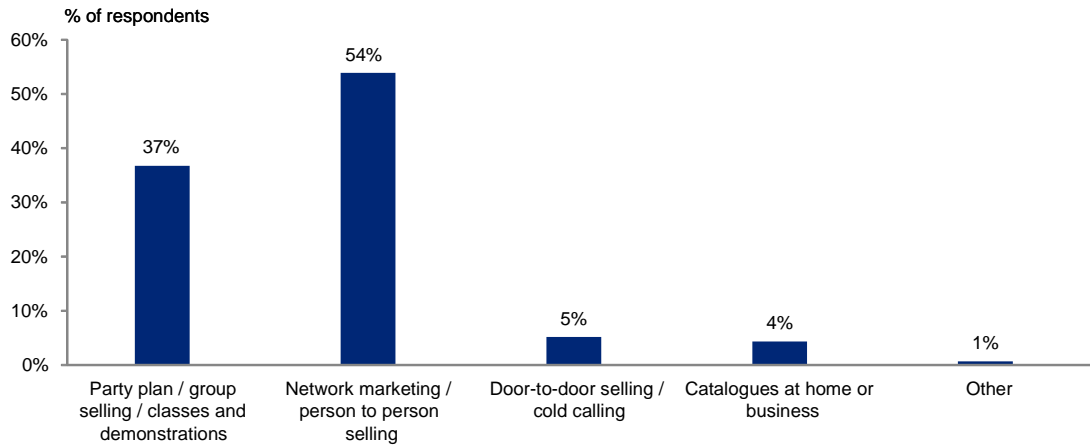
**Figure 2.3: The direct selling industry in Australia**



DSAA, 2012

Source:

**Chart 2.2: Business models**



Source: Deloitte Access Economics, DSO survey. Note respondents could select more than one option.

A majority of DSOs surveyed participated in either party plan or network marketing. Around 4% of DSOs undertook catalogue selling; a further 5% reported door-to-door selling as a model that they used. This is an important departure from traditional direct selling activities and indicates that the industry has evolved over time.

Many DSOs which were previously only door-to-door or party plan are now using a combination of selling methods, e.g. some DSO's utilise both direct selling and online channels to sell products, while others are simultaneously in direct selling and store selling. This demonstrates the flexibility of the industry to respond to the changing retail environment.

## 2.5 Goods and services suited to direct selling

Most goods and services sold through traditional retail channels can be sold through the direct selling channel. However, there are some products which are particularly suited to direct selling methods. This includes goods which are distinctive; require some form of demonstration (e.g. cookware); and result in repeat sales (e.g. cosmetics).

Products and services which have a higher personal selling elasticity are suitable to the direct selling method. Higher personal selling elasticity is associated with goods where postponement of purchase is easy, such as cosmetics and nutritional products. Overcoming this requires concentrated personal attention to individual consumer differences. Chart 2.3 shows that in Australia the three products most sold by DSOs were wellness, cosmetic & personal care goods and household goods.<sup>4</sup>

Items which benefit from personal demonstration are particularly suited to the direct selling. As the selling and purchasing interaction generally takes place in a home environment in direct selling, it is

<sup>4</sup> The categories outlined in Chart 2.3 include: **services** – telecommunication; **personal care** - cosmetics, fragrances, skincare, personal care, jewellery, fashion accessories, clothing, personal colour and image products; **food and health** - food supplements, nutritional supplements, sports drinks and foods, health foods, weight management products, fitness, aromatherapy, magnetic therapy products, therapeutic massage equipment, water filters and air purification system, wines; **household goods** - kitchenware, homewares, manchester, furnishings, candles and associated products, cleaning products and systems, car care, security; and **family** - books, toys, games, audio visual, gifts, arts and crafts, personal development products, pet care, photo safe albums and supplies, educational materials (DSAA, 2013).

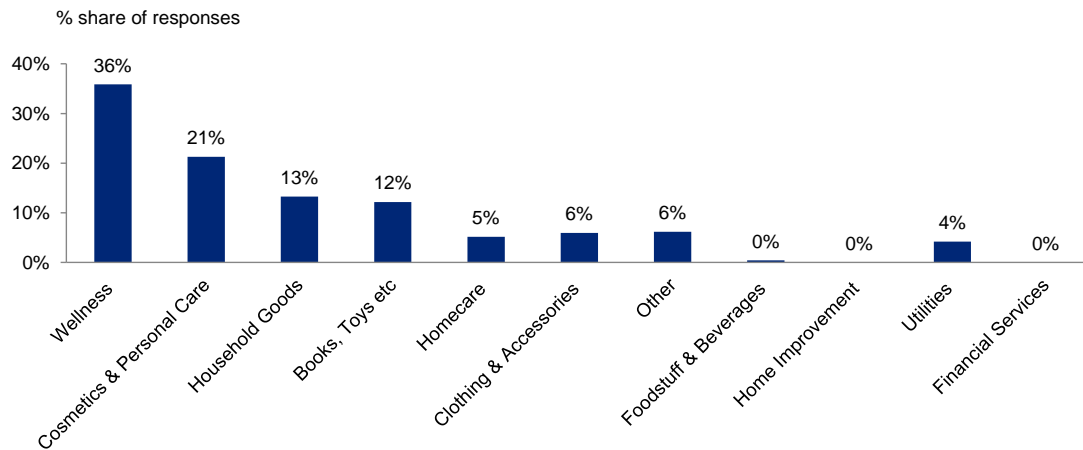
an effective strategy when the product involved is a household item. An example of this type of product is cleaning goods. Similarly, the chart below shows that household goods are the third most likely good to be sold by Australian DSOs.

Some products are suited to direct selling – more so than the broader retail industry – while other products are suited to specific direct selling methods. For example, fashion products are suited to party plan, and weight management products are suited to network marketing (Williams, 2009).

The party plan approach is an effective strategy for products that might benefit from reference group interaction among prospects attending the party (e.g. jewellery, children’s books and education material) (Peterson and Wotruba, 1996).

In contrast to direct selling, the Australian retail sector is concentrated around food retailing, which accounts for around 40% of retail sales in Australia (ABS, Cat No. 8510.0). On the other hand household goods are as important to the Australian retail sector as they are for direct selling, accounting for around 16% of total retail turnover in 2012-13.

**Chart 2.3: The primary product sold by DSOs**



Source: Deloitte Access Economics, DSO survey

# 3 The social contribution of direct selling

There is an important social element that the direct selling industry contributes to the Australian community in addition to the economic contribution outlined in Chapter 4 below. This chapter provides a socio-economic profile of those involved in the direct selling industry, including a regional profile of sellers. The chapter highlights the motivations of sellers and the social benefits that ISPs received from being involved in the industry.

## 3.1 The salesforce

Recruiting and retaining a good salesforce is the key challenge for DSOs. Consequently, issues that determine the healthiness of relationships between ISPs and DSOs are of paramount importance to understanding the industry. The relationship between the DSOs and ISPs is outlined in more detail in Section 2.3 above and 3.1.4 below.

### 3.1.1 The face of direct selling - independent sales people

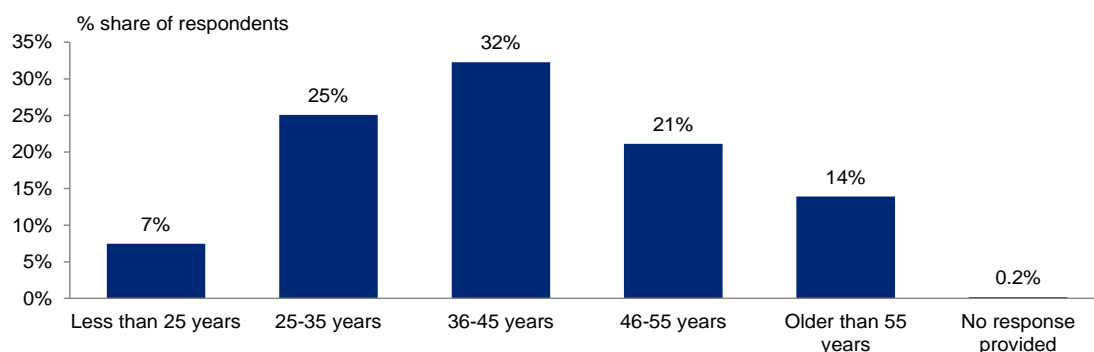
An econometric study of the industry undertaken for the DSAA in 2007 found that sellers were more likely to be female, aged between 30-50 years, and earn less than \$1,000 from direct selling activities throughout the year (DSAA, 2007).

The literature on direct selling suggests that many sellers involved in direct selling are women, working part time while they have young children. The age and gender profile of ISPs in the industry support this.

#### 3.1.1.1 Age

The age profile of the ISPs shows that a majority (57%) of ISPs are between 25 and 45 years old, around one third are under 35 which indicates that Gen Y are well represented in the industry.

Chart 3.1: Age profile of ISPs



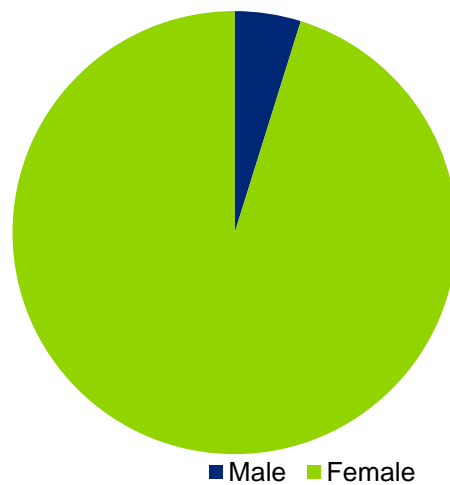
Source: Deloitte Access Economics, ISP survey



### 3.1.1.2 Gender

The chart below demonstrates that a majority (95%) of the ISPs are female however during consultations one DSO indicated that men made up a significant portion of its sales force. Leaving aside the target market for the product, male ISPs were much more prevalent in network marketing motivated by the opportunity for them to build a business. Women dominated in party plan models, where the social element of selling was important.

**Chart 3.2: ISPs gender: % share of ISPs**

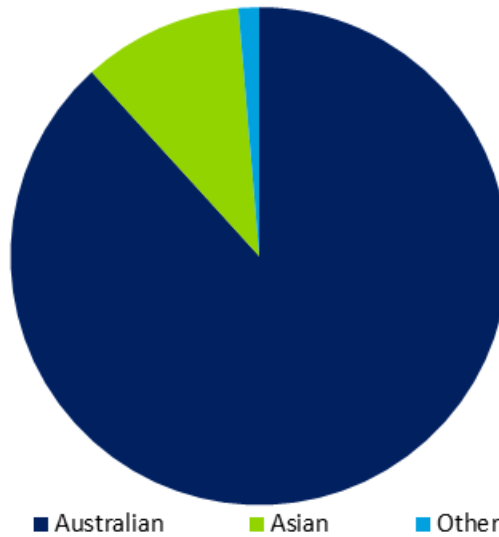


Source: Deloitte Access Economics, ISP survey

### 3.1.1.3 Ethnicity

The consultations indicated that ISPs in the industry in major cities are also represented across the spectrum of ethnicity, perhaps reflecting the informal networks that already exist in groups with common backgrounds. The DSO survey suggested that a majority of ISPs identified as either Australian (88%) or Asian (10%). This is similar to Australia more broadly where Australian (66%) and Asian (11%) together account for 77% of birthplaces of Australians aged over 15 (Census, 2011).

**Chart 3.3: DSO's estimate of the Ethnicity of their ISPs**

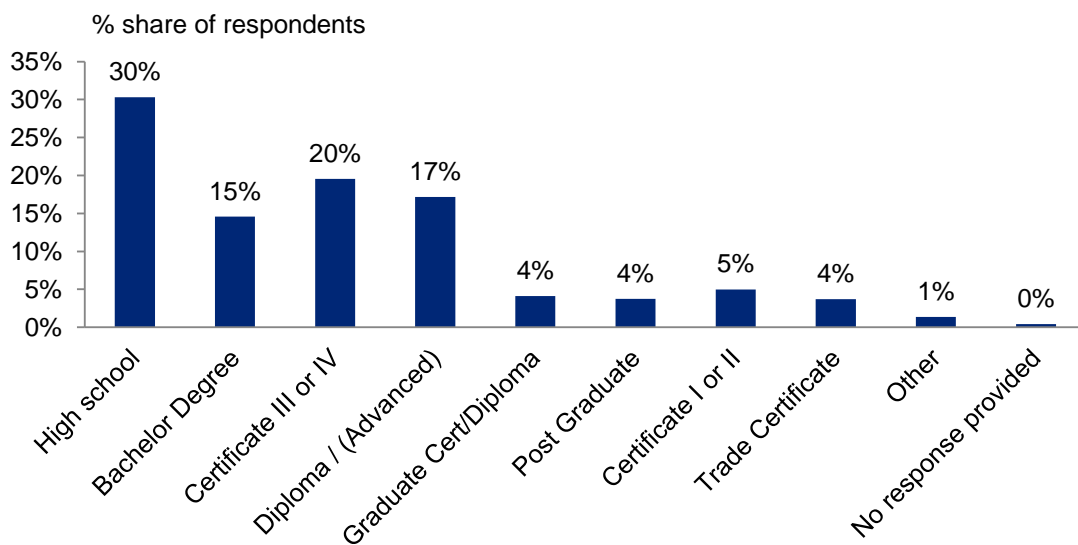


Source: DSO Survey

### 3.1.1.4 Education

A study in the US (Peterson & Wortuba (1996)) showed that the demographic characteristics of direct sellers in the US is highlighted by the sellers being more likely to be white, married and have completed high school but not university. The DSAA survey found that many ISPs involved in direct selling have achieved high levels of education. Around 30% of the ISPs had completed high school and a further 15% had completed a bachelor degree. Around 4% of ISPs had completed some form of postgraduate qualifications.

**Chart 3.4: ISP highest educational attainment**



Source: Deloitte Access Economics, ISP survey

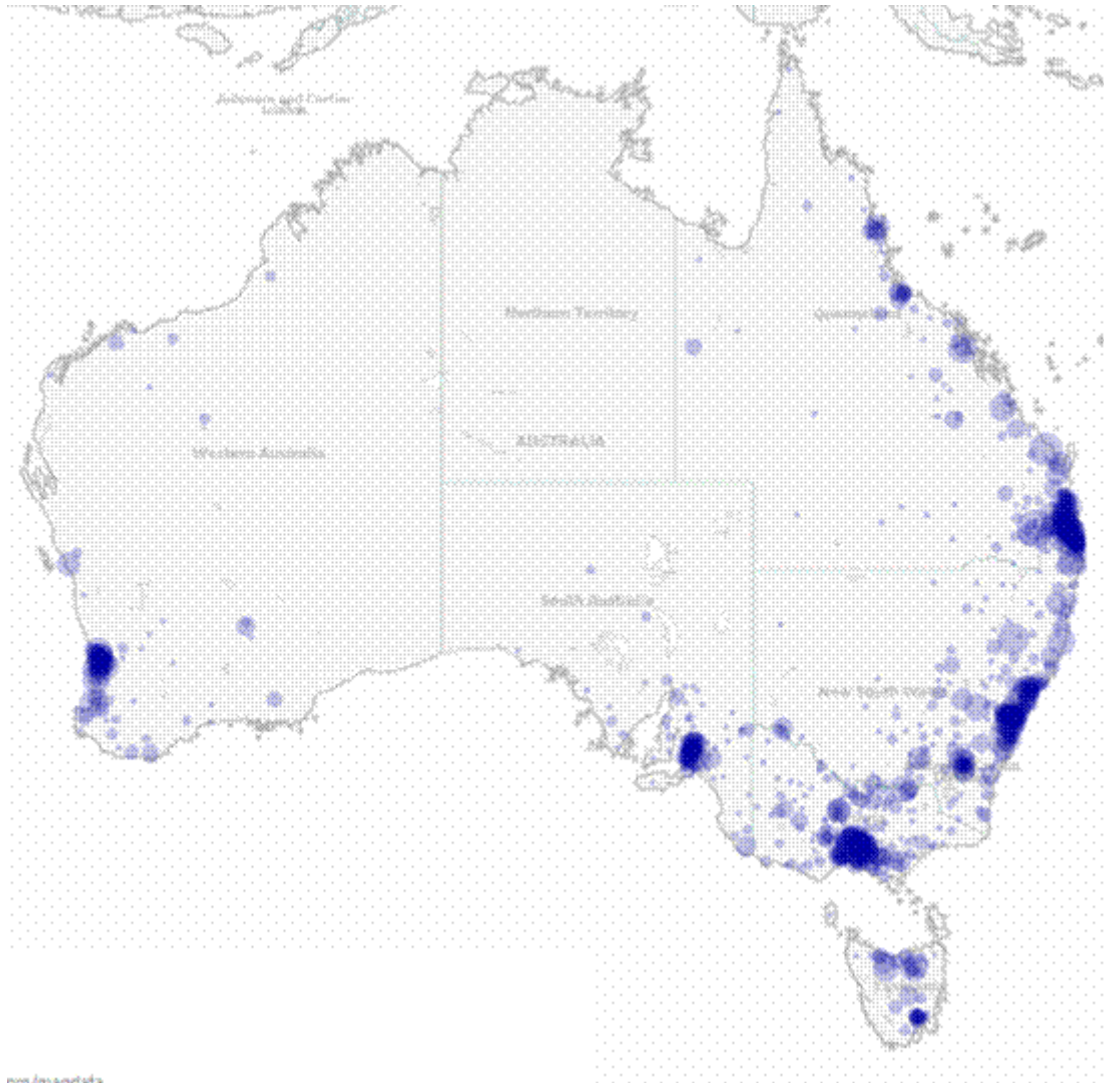
The changing composition of the Australian workforce has had an impact on the direct selling industry. In particular, the increasing participation of women in the workforce is affecting the nature of participation in the direct selling industry by women (Monash University, 2010).

Evolving consumption patterns mean that dual income homes are becoming the norm, and the income earned by participants in the direct selling industry is evolving to reflect this. Previously an ISP may have joined the industry for a discrete period of time to earn income for a specific purchase. However, to sustain a continuous second income flow an ISP will need to be more actively, and continuously, involved in the industry. This may mean that an ISP may only be involved for a few hours per week over an extended period of time earning ongoing supplementary income (this is demonstrated in Chart 3.10).

### **3.1.1.5 Where ISPs are most active**

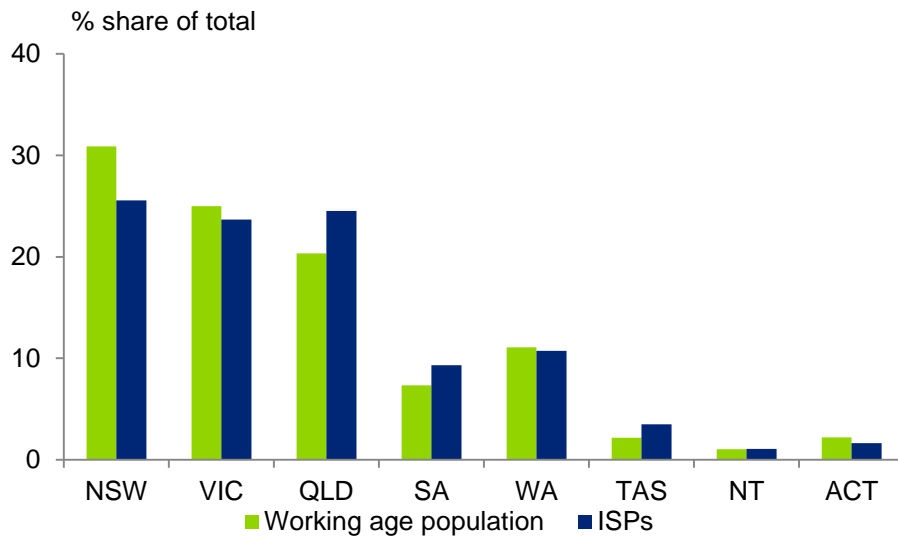
Direct selling is present throughout Australia. The majority of ISPs reside in the major metropolitan centres as expected. However as Chart 3.5 shows there are also significant presences outside the main metropolitan centres including through regional Australia. The darker areas represent areas of higher numbers of ISPs. Outside of the capital cities there are areas of significant ISP activity in Queensland, New South Wales and Victoria. The popularity in regional areas may be the result of fewer opportunities for social interaction and less choice for retail offerings outside of the major metropolitan areas.

**Chart 3.5: Where do ISPs live?**



Some states have relatively more ISPs active compared to the shares of working age population. The smaller states, including South Australia and Tasmania are overweighted in their share of active ISPs. While the larger states, in particular New South Wales, has relatively less. This may be a reflection of the greater choice of retail outlets that are available in the larger metropolitan cities such as Sydney or Melbourne, compared to those in Adelaide or Hobart.

**Chart 3.6: Where do ISPs and Australia’s working age population live?**

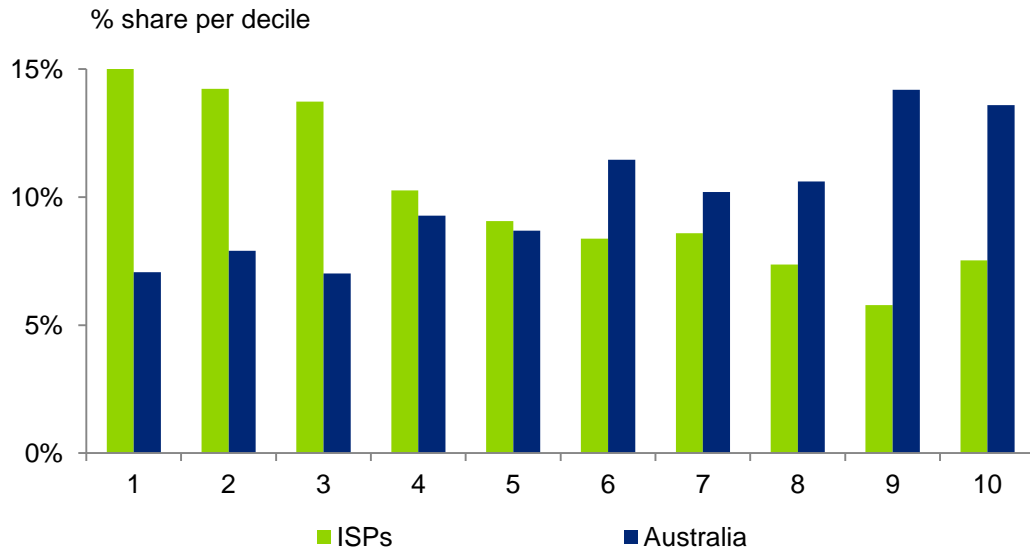


Source: Deloitte Access Economics, ISP survey, Census 2011.

While ISPs are more likely to be located in areas of lower socio-economic status (SES), there are ISPs located across all SES areas.<sup>5</sup> Many ISPs (43%) are located in the three lowest SES groups in Australia and almost two thirds (62%) are located in the lower half of SES status, suggesting that most ISPs live in areas of relative disadvantage. By comparison around half of Australians aged over 15 years are within the higher SES status groups (Chart 3.7). The direct selling industry encourages workforce participation in areas of economic disadvantage, and provides additional income to individuals earning low incomes.

<sup>5</sup> The Index of Relative Socio-economic Advantage and Disadvantage summarises information about the economic and social conditions of people and households within an area. A low score indicates relatively greater disadvantage and a lack of advantage in general. A high score indicates a relative lack of disadvantage and greater advantage in general. (ABS, Census of Population and Housing: Socio-Economic Indexes for Areas (SEIFA), Australia, 2011).

**Chart 3.7: Index of Relative Socio-Economic Advantage and Disadvantage**



Source: ABS Census, 2011 and ISP survey. Note: 10 is the highest SES score possible indicating relative advantage.

As expected, most ISPs reside in NSW, Victoria or Queensland; almost three quarters of all ISPs in Australia live in these three states. However, there is a significant number of ISPs elsewhere in Australia including, more than 5,000 ISPs who are in the Northern Territory and more than 10,000 who are in the ACT

**Table 3.1: State breakdown of Australian ISPs**

State / Territory	Number of ISPs	Share (%)
New South Wales	118,085	25
Victoria	116,804	24
Queensland	114,242	24
South Australia	44,522	9
Western Australia	51,355	11
Tasmania	16,976	4
Northern Territory	5,125	1
Australian Capital Territory	10,890	2
<b>Total</b>	<b>478,000</b>	<b>100</b>

### 3.1.2 Motivation for entering direct selling

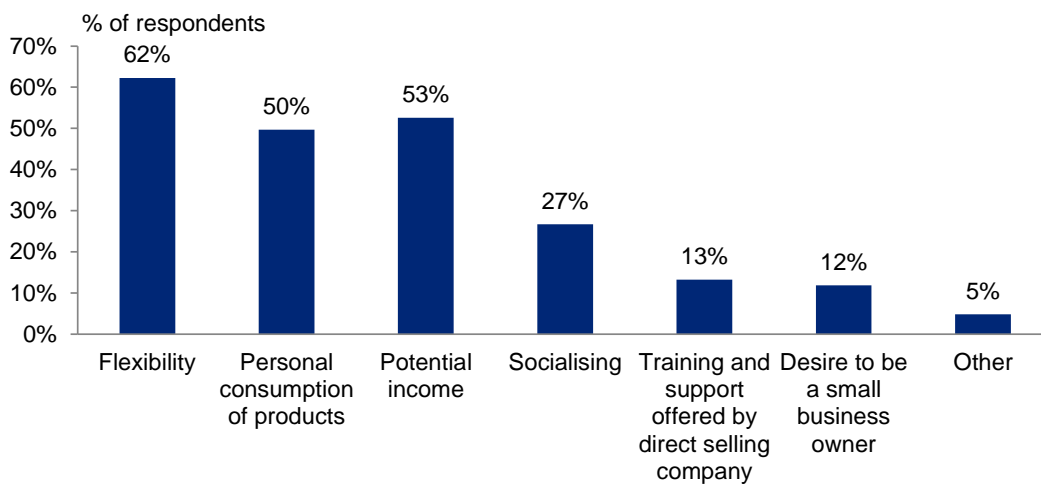
There are a number of advantages for ISP's to be involved in the direct selling industry (Williams, 2009):

- gaining supplementary income;
- flexibility around work hours;
- an entry point for start-up small business owners;
- an opportunity to build confidence;

- make new friendships; and
- nourishing personal and professional development.

More than half of the ISPs surveyed indicated that personal consumption was one of the reasons for membership of their DSO. The low-risk entry into the market and the ongoing business support offered by the DSOs was another primary motivating factor for ISPs (Monash, 2010).

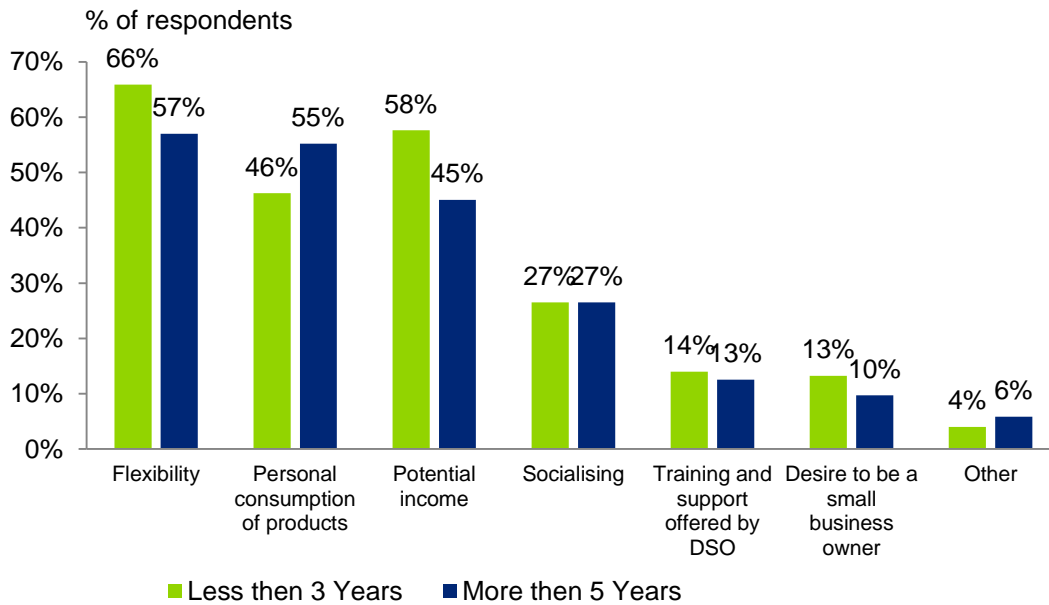
**Chart 3.8: Motivation for involvement in industry**



Source: Deloitte Access Economics, ISP survey. Note: respondents were able to select more than one response.

While the flexibility and the ability to personally consume products motivates both new and experienced direct sellers, noticeably income and socialising is a far more prevalent motivation for new ISPs. ISPs involved in the industry longer than 5 years were slightly more likely to be motivated by personal consumption, while those new to the industry were slightly more likely to be motivated by potential income and the flexibility offered by the industry.

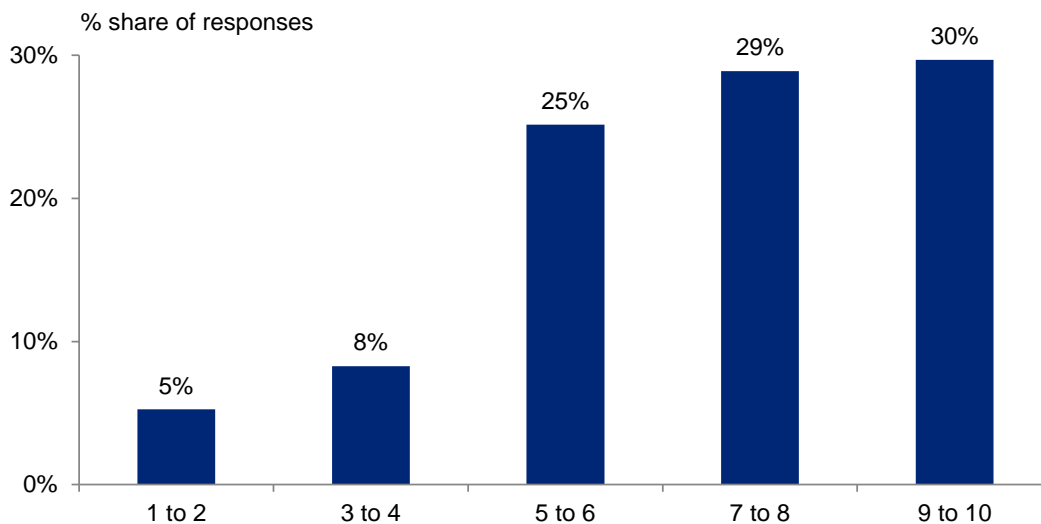
**Chart 3.9: Motivation for involvement in industry**



Source: Deloitte Access Economics, ISP survey. Note: respondents were able to select more than one response.

Chart 3.8 and Chart 3.9 shows that around half of ISPs indicated earning potential income as a motivating factor for their involvement in industry. Chart 3.10 suggests that the ability to earn supplementary income is a motivating factor; around 40% of ISPs work less than 6 hours in direct selling each week, and two thirds work fewer than 8 hours a week.

**Chart 3.10: Number of hours worked each week**



Source: Deloitte Access Economics, ISP survey. Note: Share does not sum to 100%; 3% of respondents did not answer this question.

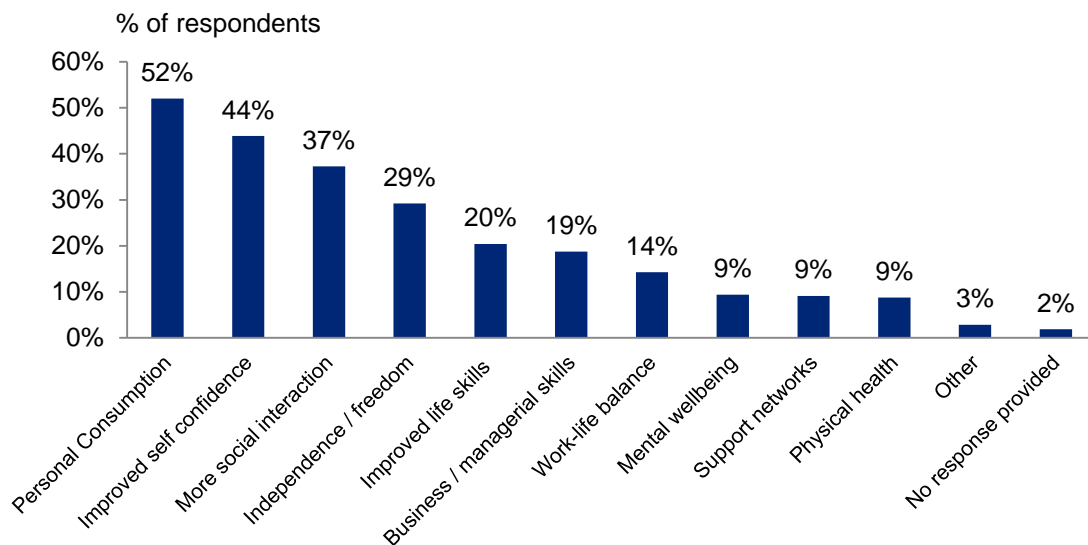


### 3.1.3 ISP's experience of direct selling

The direct selling industry is a unique part of the broader retail environment in Australia. The benefits that the industry offers to its sales force are one of the driving factors for their involvement.

#### 3.1.3.1 Benefits for ISPs

Chart 3.11: ISP benefits



Source: Deloitte Access Economics, ISP survey. Note: respondents were able to select more than one response.

More than half of the ISPs surveyed said that personal consumption of goods – typically at below retail prices – was a benefit from being involved in the industry. This benefit is unique to the direct selling industry.

Almost half of the survey respondents cited improved self-confidence as a benefit from being involved in the industry, this is supported by the literature which highlights an opportunity to build confidence as an important reason for ISP involvement in the industry. The opportunity to improve both life and business skills were also important benefits to a number of ISPs. These reasons combined with improved self-confidence, suggests that the direct selling industry is playing an important role in developing the entrepreneurial skills of a group of Australians (especially women aged 25-45 years) that otherwise might not have the chance to develop.

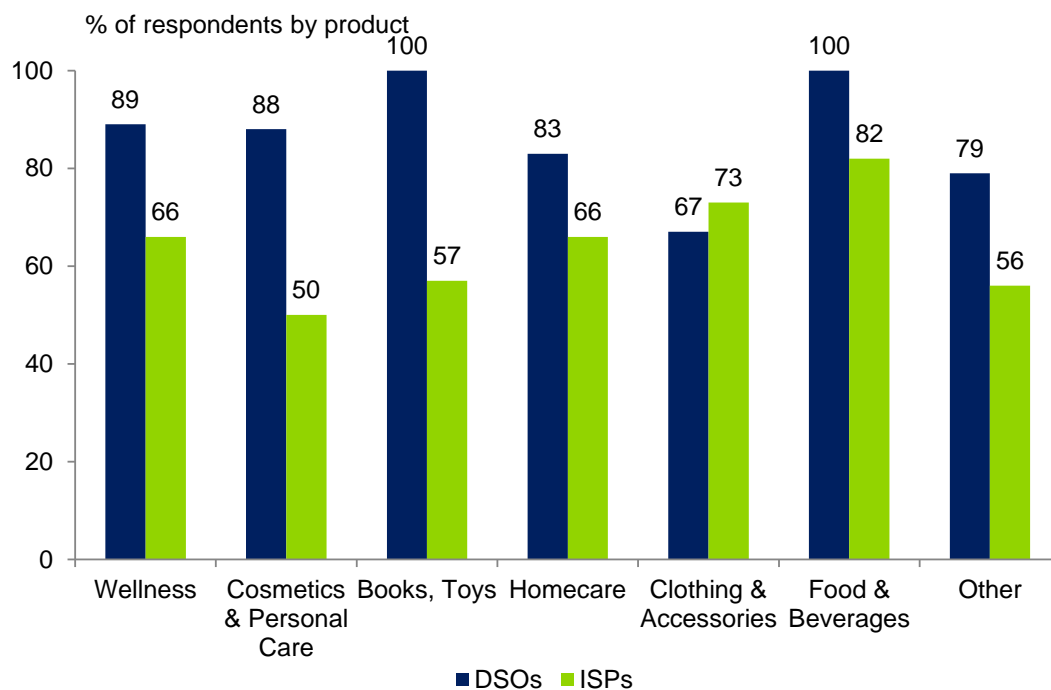
There are additional social and individual benefits gained through employment. Unemployment is associated with personal financial hardship and poverty, debt, homelessness and housing stress, family tensions and breakdown, boredom, alienation, shame and stigma, increased social isolation, crime, erosion of confidence and self-esteem, the loss of work skills and ill-health (McClelland. A and Macdonald. F, 1998). By providing flexible employment opportunities for ISPs the direct selling industry is contributing to reducing the social costs of unemployment in Australia.

### 3.1.3.2 Support from DSOs

Many of the DSOs provide ongoing training for their ISPs, albeit at different levels. Consultations indicated that training is an integral part of the ongoing development of ISPs in order to maintain longevity in the business. Training can be tailored to suit the skill level of the ISP, this has been made easier through the use of technology, including, e-learning and webinars, which allows ISPs to receive training at their level and in their own time, and gaining experience, for example, through observing at parties before running a party.

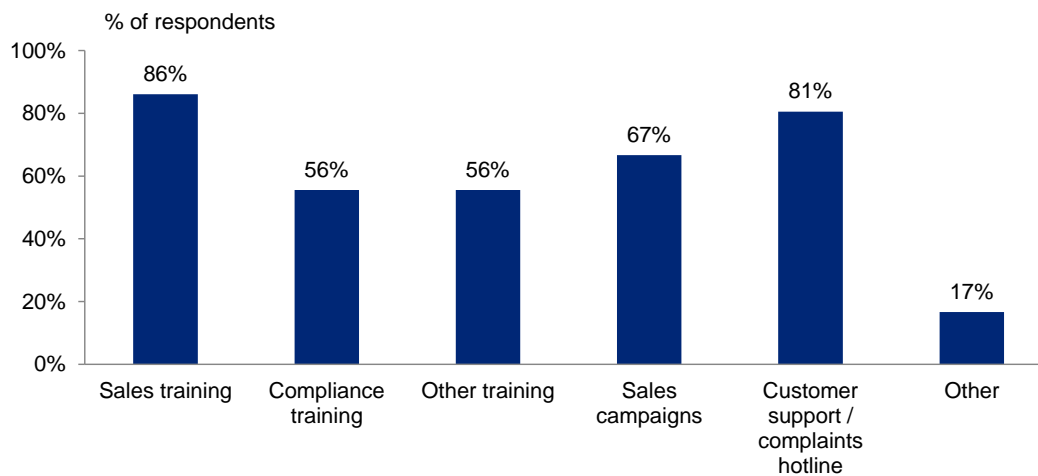
All DSOs surveyed whose primary products are books and toys and food and beverage said they provided training to their ISPs. Almost all DSOs surveyed primarily selling wellness products stated that they delivered training, while two thirds of ISPs selling wellness products received training. For those particular DSOs between 57% and 82% of ISPs respectively said they received training from the DSOs. The discrepancy may reflect training being provided by other ISPs rather than the DSO or training only being available for more senior ISPs. Alternatively it could be the result of the matching of DSO responses to ISP responses; a small number of DSOs providing training would result in 100% of respondents providing training, but not all ISPs may take up this option.

**Chart 3.12: Training provided and received**



Source: Deloitte Access Economics, ISP survey and Deloitte Access Economics, DSO survey. Note: respondents were able to select more than one response.

The DSOs surveyed stated that they provide a number of different types of support to their ISPs. Almost all (86%) of the DSOs surveyed stated that they provided sales training to ISPs, more than 80% of DSO respondents provide their salesforce with customer support. Around two thirds of DSOs provide additional support around sales campaigns. This suggests that DSOs recognise the importance of providing initial, ongoing and specific support to their ISPs.

**Chart 3.13: Support from DSOs**

Source: Deloitte Access Economics, DSO survey. note: respondents were able to select more than one response.

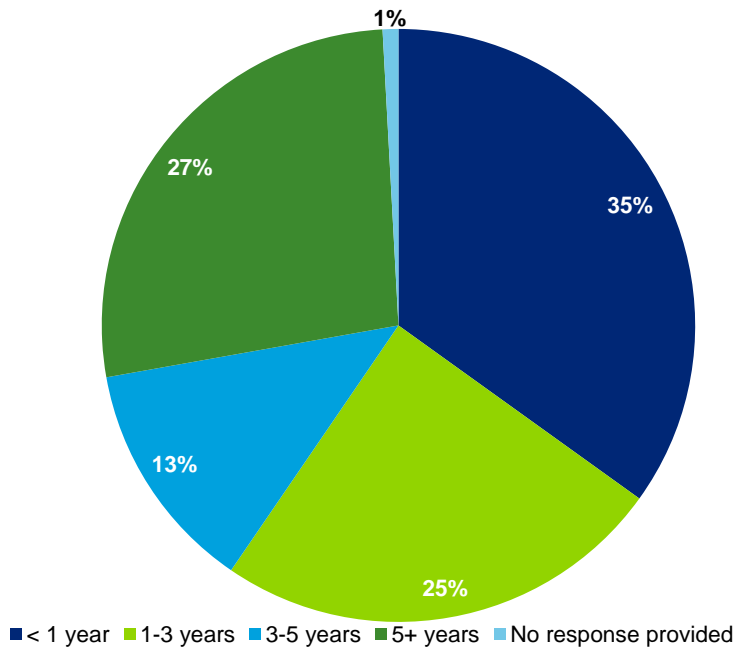
### 3.1.3.3 ISP turnover

The challenges faced by ISPs in the direct selling industry are primarily reflecting issues working in a single person business, such as time management, problems of isolation and additional administration tasks. The possibility of negative attitudes of friends and family was also highlighted as a challenge for some ISP's.

Historically DSOs operated according to ISP turnover of one third joining, one third working and one third leaving (DSAA). In 2006 around 26% of the ISPs in the industry had been involved for less than one year. However, these statistics may not accurately represent the actual characteristics of the industry, whereby a number of ISPs are members of the industry in name only, purchasing once for personal use and not making any subsequent sales (DSAA, 2007).

The ISP survey supports this reservation as slightly more than one third of the sales force has been involved for less than a year. At the same time, the survey suggests that around 40% of ISPs had been involved in the industry for more than 3 years. In 2008, the Australian Human Resources Institute estimated annual employee turnover at 18.5%. Hence, the turnover rates in the direct selling industry are close to the national average.

**Chart 3.14: ISP duration in the industry, % of respondents**



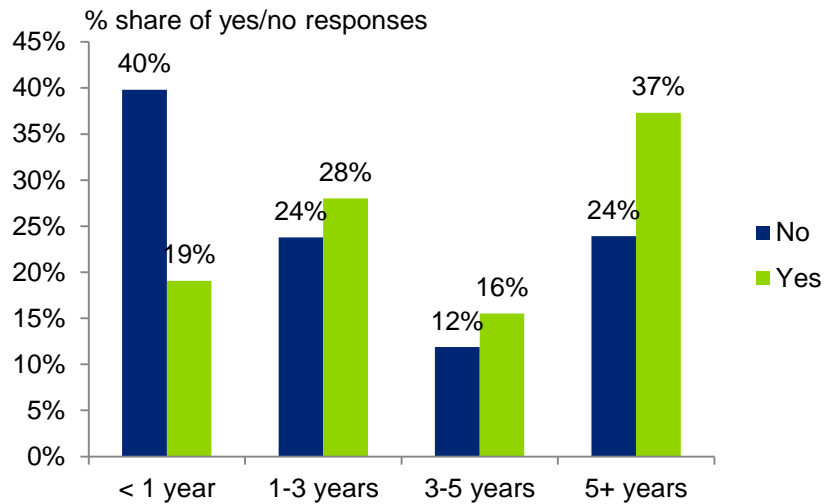
Source: Deloitte Access Economics, ISP survey

If ISPs join the industry mainly to purchase consumable products (as distinct from durable goods, or non-repeat items) at wholesale prices for their own use, then it is not obvious why they would leave the industry. Comparing turnover rates to rates on purchase for own consumption could shed some light on this issue. Around 50% of respondents said they bought goods for personal consumption, and 40% of respondents were still in the industry after 3 years.

There are costs in recruiting and training new ISPs to work in the industry. Hence, DSOs in the industry have a strong motivation to retain existing ISPs, to avoid the cost of recruiting and training new ISPs.

Prior analysis by the DSAA has shown that the greater the level of involvement of an ISP, the longer their duration in the industry is likely to be. This includes ISPs having a greater role in creating, motivating, training and managing their own team of ISPs, or downline. Chart 3.15 demonstrates that ISPs that spend more time developing their own downline are more attached to the industry, and this is associated with increased retention and lower turnover.

**Chart 3.15: Do ISPs have a downline?**

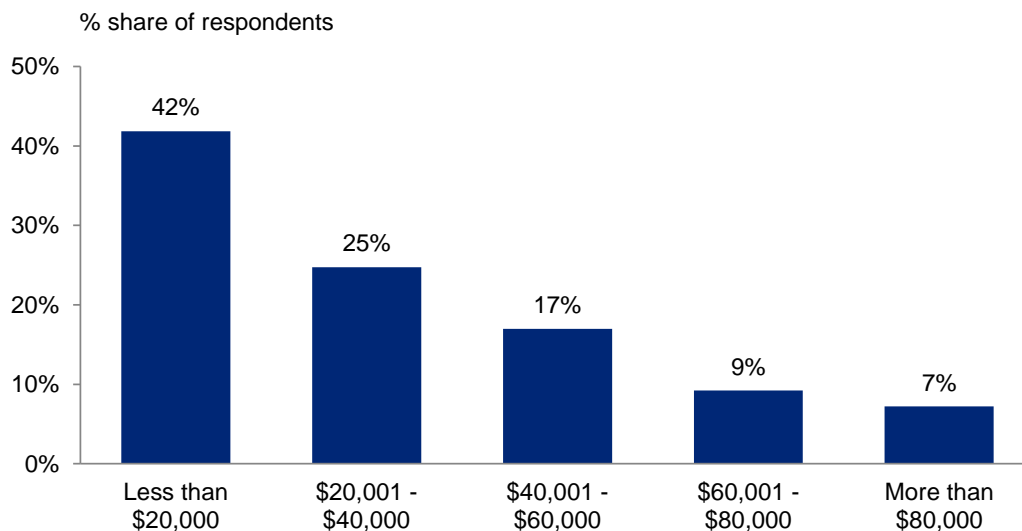


Source: Deloitte Access Economics, ISP survey

### 3.1.4 Remuneration and rewards for ISPs

The results of the survey have suggested that the direct selling sales force is mostly made up of women, aged 25-45. Further contributing to establishing a profile of the sales force of direct selling is the chart below. This indicates that direct selling predominantly provides a source of income for those with relatively low average annual earnings in all jobs. That is, the direct selling industry is a means for those who may otherwise be disengaged with employment to enter the workforce.

**Chart 3.16: Earnings per annum in all jobs**



Source: Deloitte Access Economics, ISP survey

There is some public perception that the direct selling industry involves aspects of **pyramid selling**. (A discussion of the pyramid selling issue is provided in Figure 3.1). The high number of ISPs purchasing goods for their own use may lead to this misconception. To guard against this, the DSAA and its members have well established procedures aimed at reducing the potential of pyramid sellers to be

actively involved in the industry. The DSAA believes that genuine direct sellers involved in the industry which are not members of the DSAA are also likely to have procedures in place. To evaluate this issue some understanding of how remuneration plans actually work is required.

#### 3.1.4.2 Remuneration plans

The two main types of remuneration plans are single-level or multi-level. Table 3.2 provides an example of each remuneration scheme for independent sales people from Australian based DSOs. An essential characteristic of the direct selling channel is the **independence** of the sales force. This is apparent under each remuneration plan. It is important to note that the examples outlined below are indicative only; there are variations of these plans in the direct selling industry in Australia.

In the **single-level** remuneration example, remuneration is based purely on the level of sales. Goods are often delivered from the DSO directly to the customer, and as a result, the ISP does not take physical possession of the product at any stage.

By contrast, in the **multi-level** remuneration example ISPs typically take physical possession of the product. The ISP is rewarded based on personal sales and may be eligible to receive additional benefits for sales procured by other ISPs who they have introduced to the industry.

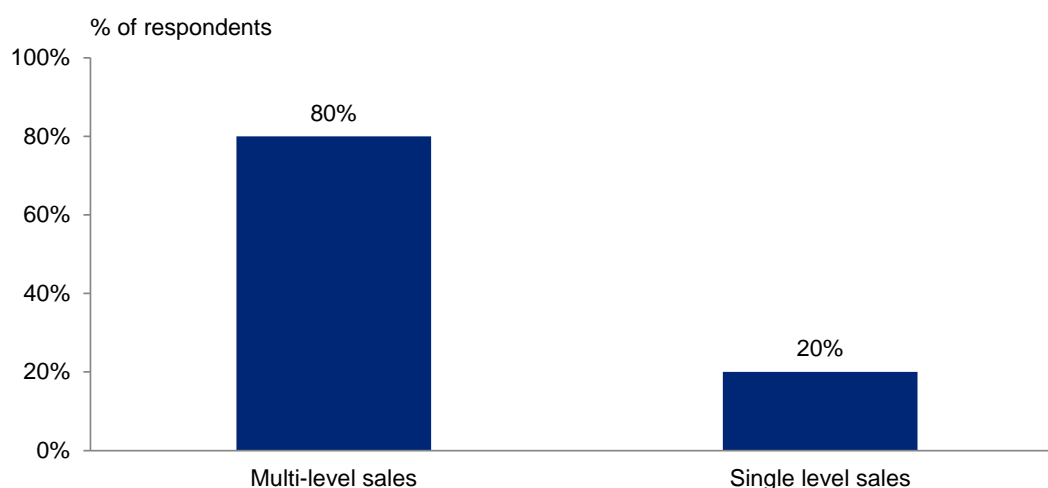
The two above examples are indicative only and there are a number of variations used throughout the industry. Multi-level reward structures exist regardless of whether an ISP has a role in the delivery of goods or whether the ISP is a reseller or agent and supply is directly between the DSO and the consumer.

For example, in the auto-ship model products are often periodic consumables e.g. wellness products. An ISP may acquire products for personal consumption and to sell. Income is generated by the margin or commission on products sold and overrides from the performance of the downline. Orders are placed with the DSO by the ISP and supply is made by the DSO directly to the ISP, who will either consume or resell.

**Table 3.2: Examples of single and multi-level remuneration schemes**

	<b>Single-level (Organisation A)</b>	<b>Multi-level (Organisation B)</b>
ISP margin on sale	20% of retail price	0 – 43% of wholesale price (depending on retail price chosen by ISP)
Direct bonus for high sales	5 - 10% of retail price (if monthly sales of \$5,000 are achieved with commission rising with sales level)	
Remuneration from recruitment	N/A	5% commission on sales of those directly recruited and 9 - 15% commission if personal sales and those of your recruits (and their recruits) reach a certain threshold. A different bonus structure applies if your recruits become executives by recruiting others and meet minimum sales thresholds from their sales and those of their recruits.
Conditions for receiving remuneration from recruitment	N/A	Must make 5 retail sales a month and satisfy a minimum order requirement, for the additional 9-15% commission an additional minimum order is required.

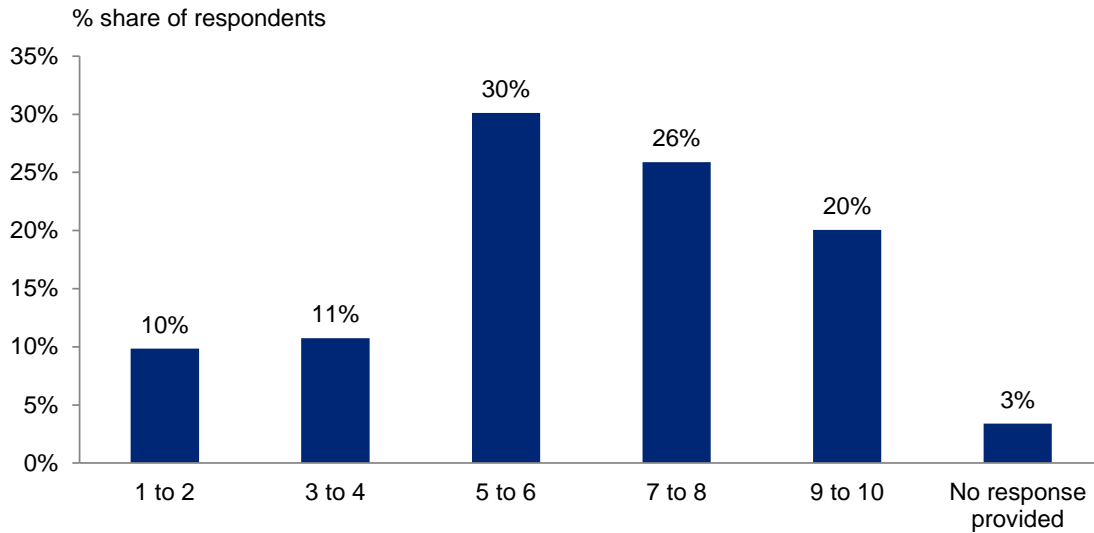
**Chart 3.17: Direct Selling sales by compensation structure**



Source: Deloitte Access Economics, DSO survey

A majority (79%) of ISPs operate according to multi-level sales plans. This suggests that ISPs may be attracted to the opportunity of setting up their own small business by managing their own downline.

**Chart 3.18: Satisfaction with remuneration**



Source: Deloitte Access Economics, ISP survey. Note: The question asked respondents to indicate their satisfaction with remuneration plans on a scale of 1 to 10 with 10 indicating the highest level of satisfaction.

Some 46% of respondents rated their satisfaction with remuneration 7 out of 10 or higher. Less than one quarter of all respondents indicated that they are less than satisfied with the remuneration plans. Some dissatisfaction with remuneration is common amongst employees regardless of industry. A survey by Mercer in 2011 indicated that around 50% of women and 44% of men were dissatisfied with their level of pay. Only 21% of the ISP sales force in Australia ranked satisfaction with remuneration below 5, suggesting that their income is meeting their expectations.



**Figure 3.1: Pyramid selling**

The Australian Consumer Law prohibits a person from engaging in pyramid selling techniques, including the participation, promotion, and inducement of others to be involved in such schemes. This applies to DSOs, ISPs and their customers, as well as to other members of the retail industry. Direct selling business models are generally supported by multi-level reward systems to encourage product distribution.

Pyramid schemes survive as long as new participants are recruited. People are induced to make a participation payment to enter the scheme with the prospect of recouping that payment and more from the subsequent recruitment of new people. These schemes can also have some product orientation to disguise them as legitimate direct selling.

Measures to guard against 'pyramid selling' have been adopted throughout the industry. For example, one of the DSOs consulted requires its ISPs to make a predetermined number of direct sales before they can receive commissions and bonuses; however in operating a wholesale business model, these sales are self-reported by the ISPs. The DSAA Code of Practice has requirements for the return of unused inventory.

In Australia, compensation plans which are illegally structured or promoted can be a major source of complaints, disputes and regulatory action (DSAA 2012). In particular, the complex compensation plans, under which an ISP's income may consist of commissions and bonuses for sales by the ISP's recruits (and in turn, by the ISP's recruit's recruits) in addition to earnings for personal sales, can be of concern for participants and regulators of the industry.

The multi-level reward system is widely utilised throughout the industry and indeed across a number of other Australian industries as well. Key considerations for pyramid selling are what it costs to join, the value in the investment, whether customers are able to discern product value in quality and price from informed choice and whether reward from down line activity primarily derives from product consumption.

To overcome the complexities of compensation plans the DSAA, and the Association's members, have established protocols which reduce the likelihood of an organisation being involved in pyramid selling schemes. In particular, the DSAA Code prohibits members from participating in any deceptive, unlawful, or unethical consumer or recruiting practices.

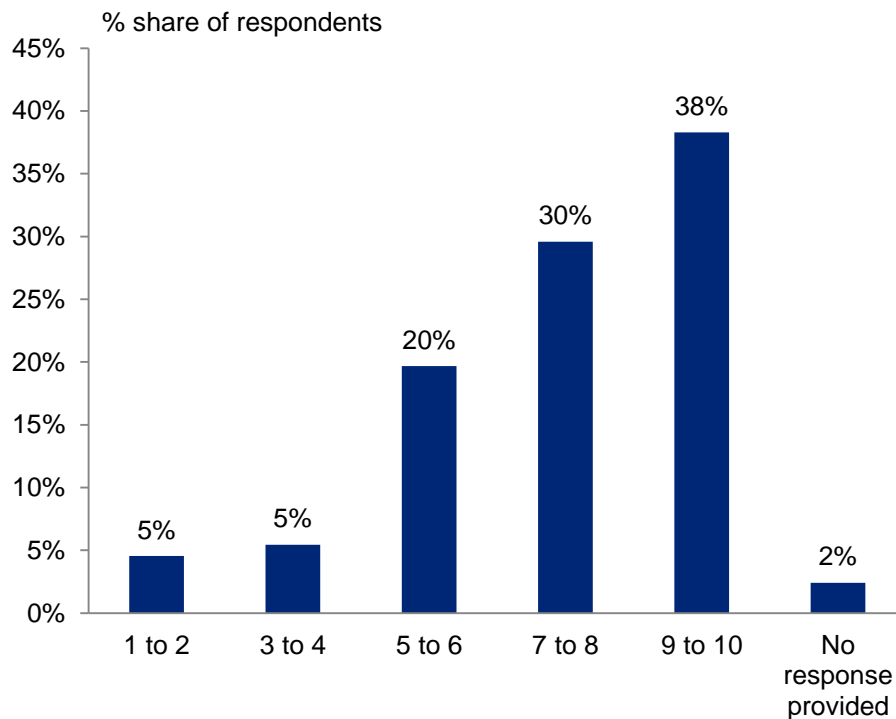
### 3.1.5 Overall level of satisfaction with industry

Overall most ISPs say they are quite satisfied with their involvement in the industry (Chart 3.19). Indeed, strong ISP satisfaction across a range of factors was apparent in the survey results, suggesting that in general the sales force is happy to be involved in the industry.

- More than half of the ISPs ranked job security as 7 out of 10 or higher.
- Around 70% of respondents ranked their social interactions as 7 or higher.

- Almost 75% of respondents ranked their satisfaction with the flexibility of the work as 7 or higher.
- More than 65% ranked satisfaction with the work itself as 7 or higher.

**Chart 3.19: Overall satisfaction**



Source: Deloitte Access Economics, ISP survey. Note: The question asked respondents to indicate their overall satisfaction with the industry on a scale of 1 to 10 with 10 indicating the highest level of satisfaction.

These results suggest that there are a range of reasons why ISPs would choose to be involved in the industry. Satisfaction is not confined to remuneration or flexibility alone. This result is further reinforced by the large share (40%) of the sales force that have been involved in the industry for more than 3 years.

## 3.2 The customers

The direct selling industry is a customer-focused industry. Indeed, in a changing retail environment which has seen the rise of online selling and the decline in customer service in the bricks and mortar retail environment, the direct selling industry continues to rely on building strong relationships between buyers and sellers.

Customers were not surveyed directly however, information about customers was obtained from the ISP survey.

### 3.2.1 Who are the customers?

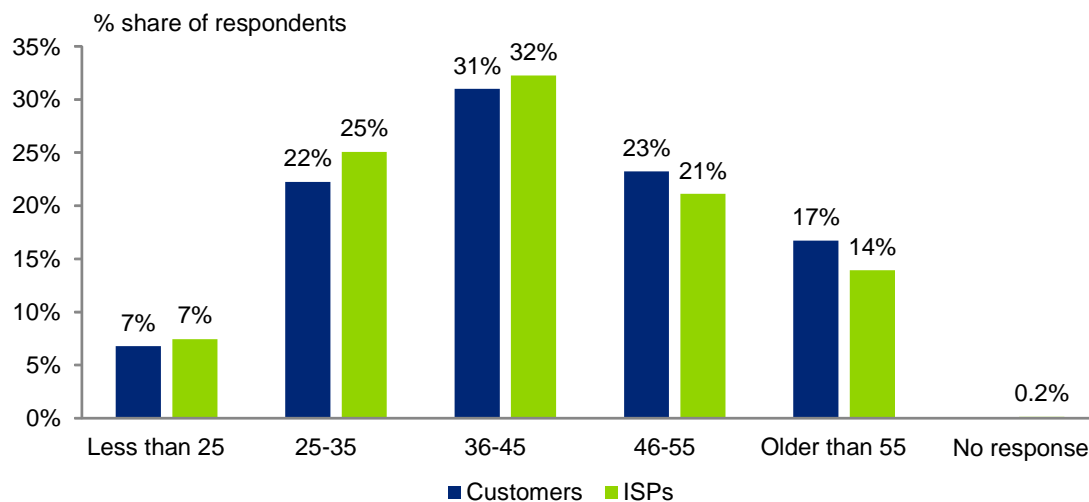
**The definition of customers** in the direct selling industry is different to the broader retail industry – further demonstrating the sectors unique position in Australia’s retail environment.

In the direct selling context, customers include ISPs purchasing products for their own use as well as non-ISP end users of the products.

Information about direct selling consumers is varied, but international studies show they are more likely to be young, female and possess a higher level of education than non-purchasers. Less is known of their demographic profile than ISPs. In a current context, information about their level of satisfaction with the products and their relationships with ISPs and DSOs was difficult to find.

The social nature of direct selling suggests the customer base is likely to reflect characteristics of the salesforce and vice versa (Chart 3.20); ISPs are likely to more easily relate to a target market with similar tastes and characteristics to themselves. This raises the issue of how ISPs, will be able to successfully sell to other cohorts, e.g. different age groups. This is a challenge for DSOs selling products aimed at older demographics, but wishing to recruit younger ISPs (and customers).

**Chart 3.20: Comparison of age**



Source: Deloitte Access Economics, ISP survey.

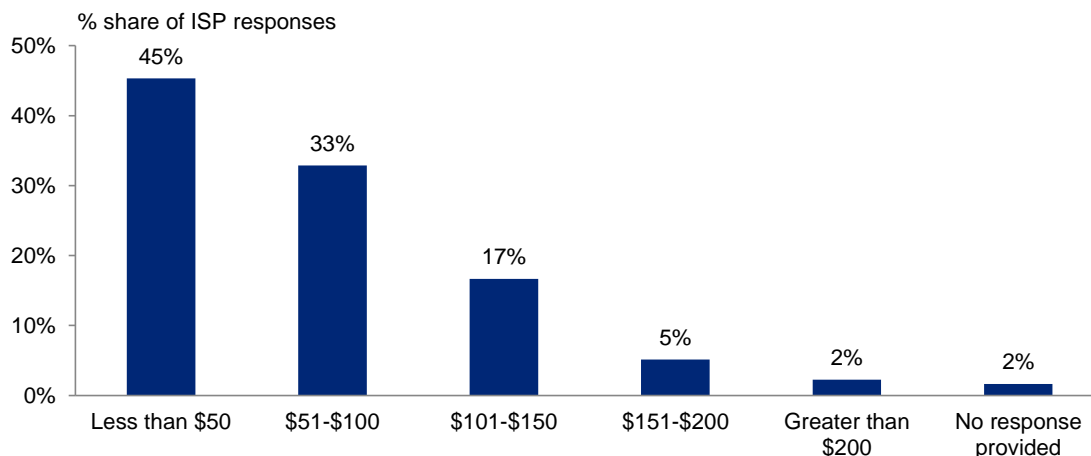
Chart 3.20 suggests that the sales force and customers of the direct selling industry are relatively young. Indeed, more than two thirds of those involved either as a sales person or as a customer are below the ages of 45. Further, around one third of these are below 30.

The results of the survey indicate that with a significant number of young people both buying and selling in the industry, there is a promising future for direct selling.

Consultations indicated that DSOs enjoy relatively stronger sales in country areas, reflecting limited choice for consumers and the social aspect of party plans magnified by the greater distances between friends and family; in this respect, direct selling has not changed since the days of the travelling salesman of old.

### 3.2.2 Customer spending patterns

**Chart 3.21: Average customer spending per transaction**



Source: Deloitte Access Economics, ISP survey.

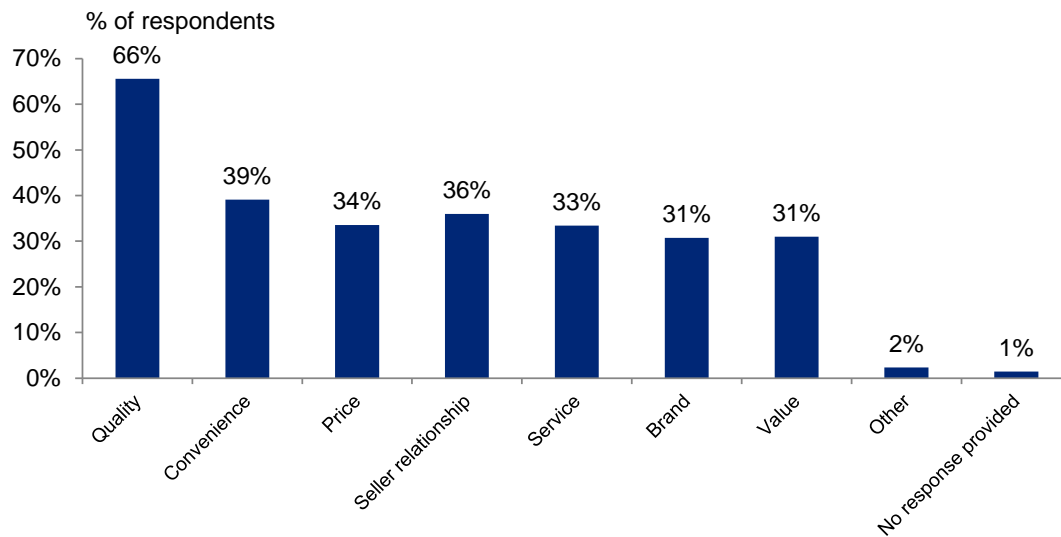
Some 75% of customer transactions are valued at \$100 or below; the average customer spending across all ISPs was \$73.15. This suggests that the kinds of products purchased are not expensive big ticket items such as household goods. Chart 2.3 which showed that around one third of DSOs in the direct selling industry sell cosmetic goods. While, it is not clear from the data how often items are purchased it is likely that most purchases are smaller items, purchased more frequently, such as cosmetic or personal care goods.<sup>6</sup> However, due to the variety of products sold by DSOs there will likely be some transactions which are valued significantly higher.

### 3.2.3 Why customers choose direct selling

DSOs indicate that, as they are reliant on word of mouth to market their product, quality products are essential to maintain a good reputation and generate further sales. In a survey of eight countries (including Australia) Brodie et al (2004) found that the primary motivating factors of retail consumers to purchase products through the direct selling retail channel is convenience, product need and appeal. Value for money and the service provided were also cited as important motivating factors. From the global sample, social obligation and image of direct seller were the least cited reasons for purchase by consumers.

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<sup>6</sup> The average customer spend, weighting ISP responses according to the revenue share of the DSO ISPs have indicated they work for reduces the average customer spend per transaction to \$52.15.

**Chart 3.22: Why ISPs believe their customers purchase their products**

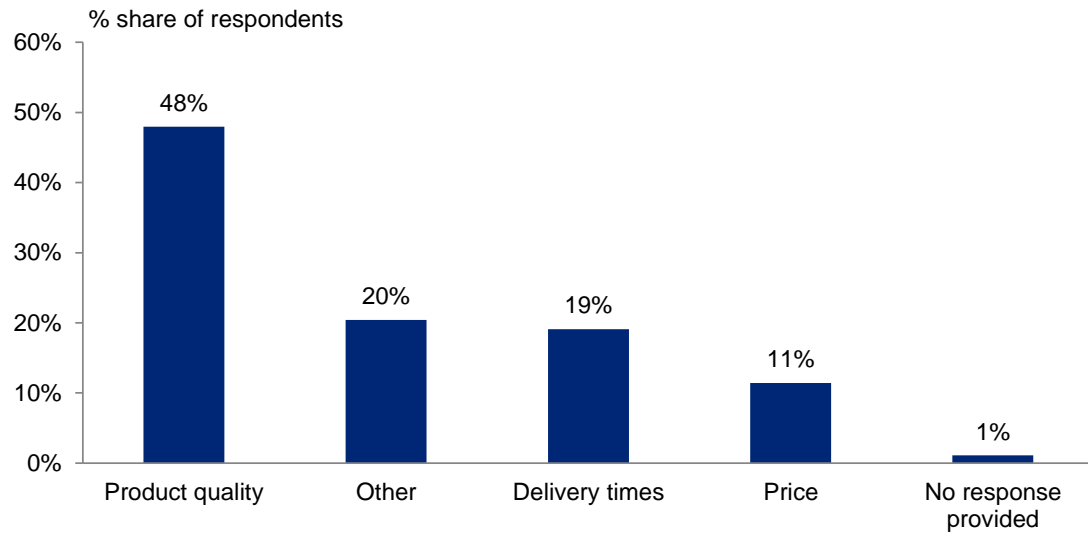
Source: Deloitte Access Economics, ISP survey. Note: respondents were able to select more than one response.

The quality of products sold is what most Australian ISPs believe is the reason why their customers purchase their products. In any line of retailing, firms need to refresh products from time to time and DSOs use standard techniques, such as sales at discounted prices, limited edition items and providing free services that complement the core products, such as recipes and health tips.

### 3.2.4 Customer complaints

The chart below describes the reasons for complaints as reported by the ISPs. It should be noted that while this information is anecdotal, there is no official data that shows that the level of complaints is higher in direct selling than in the broader retail environment or in other consumer industries. Of those ISPs who stated that they had received at least one complaint in the last 12 months 48% cited product standard as the main reason. Delivery times (19% of respondents) and price (11% of respondents) were also cited as reasons for customer complaints by ISPs who stated that they had received a complaint in the last 12 months. It is a condition of membership in the DSAA that DSOs have formal complaint handling procedures in place, while the DSAA itself also has an independent complaints resolution system through its Code of Practice and Code Administrator.

**Chart 3.23: Reasons for customer complaints**



Source: Deloitte Access Economics, ISP survey.

## 4 The economic contribution of the direct selling industry

This Chapter presents the results of the economic contribution study, in terms of the direct and indirect economic contribution of the industry, as well exploring employment, the ISP economic contribution and finally the total economic contribution. An explanation of the methodology employed in economic contribution studies appears in Appendix B.

In 2010 the DSAA undertook a detailed analysis of the industry in Australia. This study was undertaken by Monash University. The results of this survey were primarily qualitative; the economic contribution outlined in this chapter present a quantitative analysis of the direct selling industry in Australia.

With the aid of the information gathered from simultaneous surveys of Australian ISPs and DSOs, this chapter analyses the economic contribution of the direct selling industry to the Australian economy. This analysis maps revenues from DSOs and ISPs and the flows through to associated sectors that supply goods and services to the industry. This chapter lays out the revenue flows and costs incurred by DSOs and ISPs, before setting out the direct and indirect economic contributions.<sup>7</sup>

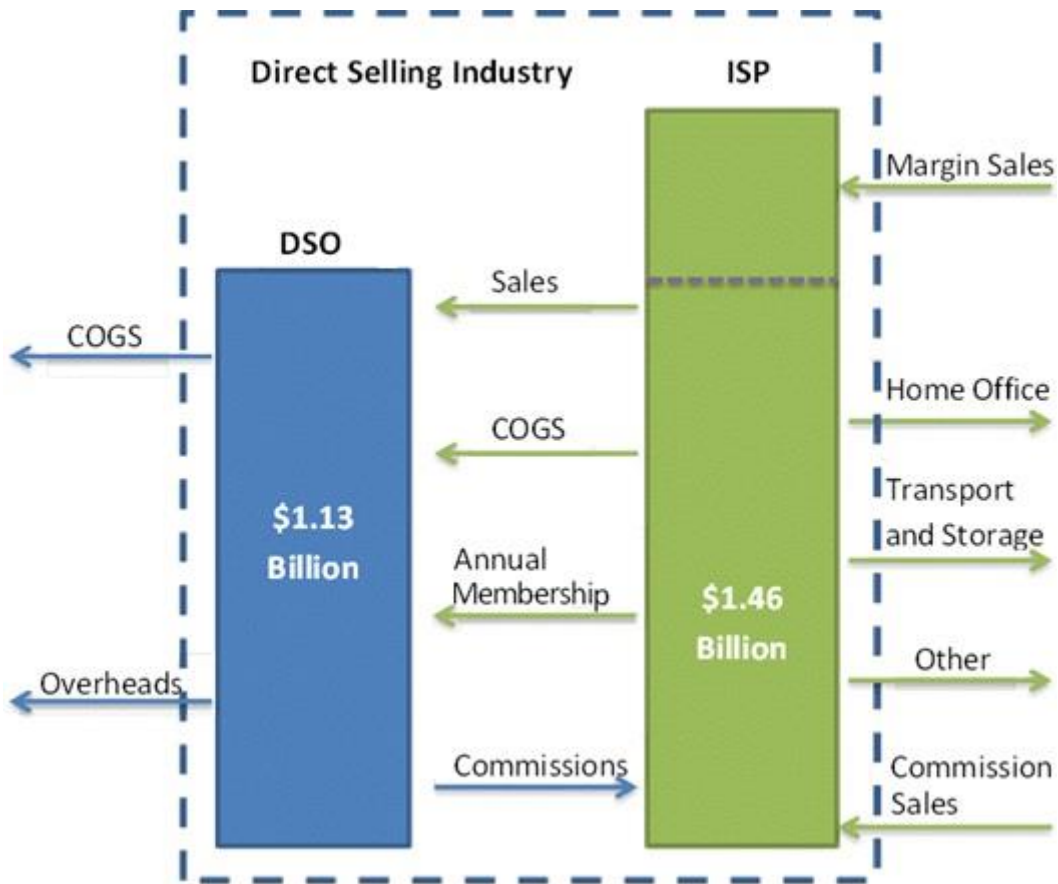
As outlined in Chapter 2 above, there are two types of payments systems for ISPs, commissions from the DSOs on their sales, or by keeping the margin on buying and reselling the goods. Due to the presence of the commission payments, the relationship between ISPs and DSOs has multiple layers, as the two members have several transfers between each other. These transfers include the commission payments from the DSOs to ISPs, the revenue from commission driven sales, the purchasing of the cost of goods sold (COGS) from the ISPs earning sales margins, and annual memberships. COGS are defined as the value of goods sold during a period; this includes the costs of raw materials including freight, the costs of storing products sold by a business, warehouse overhead costs, and direct labour costs of producing goods.

The flow of payments between industry participants and with associated industries is outlined in Chart 4.1 below. This shows that \$1.13 billion of revenue earned by DSOs flows towards related industries in the form of COGS and overheads. At the same time DSOs are paying out commissions (and other payments) towards the ISPs. The \$1.46 billion in revenue earned by ISPs flows back towards the DSOs as COGS for goods purchased and towards other related industries as payments for operating expenses (e.g. running a car or home office supplies).

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<sup>7</sup> In a national accounting framework, the economic contribution is made up of the wages or earnings accruing to labour and the gross operating surplus (GOS). GOS is defined as earnings before interest tax, depreciation and amortisation, or EBITDA. For the purpose of ISPs, all profit is attributed to income.

Chart 4.1: Flows of the direct selling Industry, 2012



Source: Deloitte Access Economics

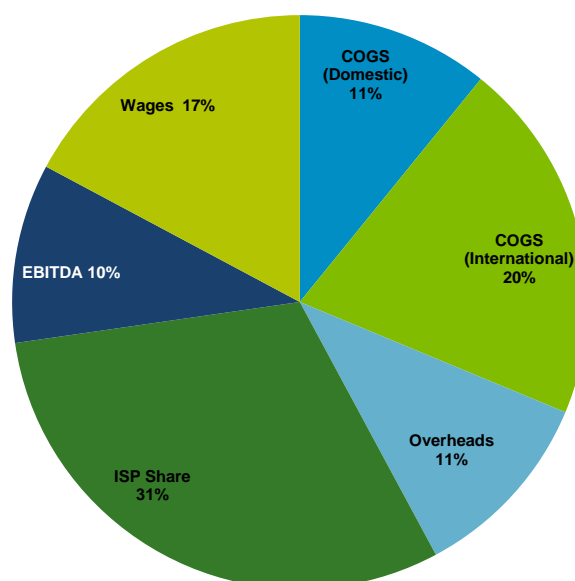
## 4.1 DSO financial summary

Member firms of the DSAA report total annual revenue in 2012, at wholesale, of \$1.13 billion. Some 36 of 70 DSAA members responded; however revenue data from all 70 members previously provided to the DSAA was used to derive totals. The 36 DSO respondents together make up 64% of the revenue of all the DSAA members.

The surveys provided information on the average DSO revenue breakdown (Chart 4.2 and Table 4.1 below). Around 10% of DSO revenue is paid out as earnings before interest, tax, depreciation and amortisation (EBITDA).<sup>8</sup>

<sup>8</sup> EBITDA gives an indication of the current operational profitability of a company, or industry.



**Chart 4.2: Average DSO revenue, 2012**

Source: Deloitte Access Economics calculations

In comparison the wages share of costs in the Cosmetics and Toiletry Wholesaling industry was 14.7%. While this is not a direct comparison to the direct selling industry, it is indicative of shares of expenses in a comparable industry. Purchases account for around 64% of costs in this industry and around 7.1% of costs are retained as profit.

The greatest share of outflow from DSOs goes to its ISPs (31%), in the form of commissions on sales and other bonuses and incentives (from here onwards, 'commissions') wages are paid to DSO staff e.g. in head office.

Chart 4.2 shows that 10% of the costs of goods sold (COGS) by the industry originate from international sources.

**Table 4.1: DSO Annual Revenue Breakdown, 2012**

	\$ million	Share (%)
COGS (International)	232	20
COGS (Domestic)	123	11
Overheads	123	11
ISP Share	346	31
EBITDA	115	10
Wages	195	17
<b>Total</b>	<b>1,133</b>	<b>100</b>

Source: Deloitte Access Economics calculations

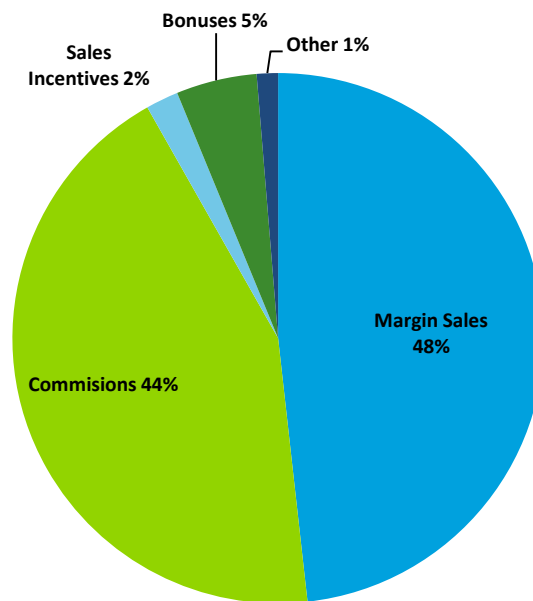
## 4.2 ISP financial summary

Some 31%, or \$346 million, of the DSO revenue was paid to ISPs in commissions in 2012. This revenue figure also made up 52% of an average ISPs net income. Therefore it is possible to estimate the inflows made from margins on sales.

Retail firms range from commission (such as a real estate agent) to profiting only from margins on sales (such as restaurants and bars). The difference generally lies within the products being sold, and the risks associated with them. For more expensive items, like houses and cars (car dealerships), retailers will work off commission, as to reduce the risk associated with selling. Restaurants and Supermarkets (Coles and Woolworths) purchase the goods outright and resell them at a margin.

The mixed source of income below comes from averaging the income stream from both the types of ISPs.

**Chart 4.3: Net income for the average ISP, 2012**



Source: Deloitte Access Economics calculations

Chart 4.3 shows that ISPs receive a slight majority (52%) of their inflows from DSOs (commissions, sales incentives, bonuses and other) and the remaining 48% from margins on their sales revenue. Given that payments from DSOs came to \$346 million this implies margins on sales were \$323 million.

**Table 4.2: Revenue (less COGS and annual membership for ISP), 2012**

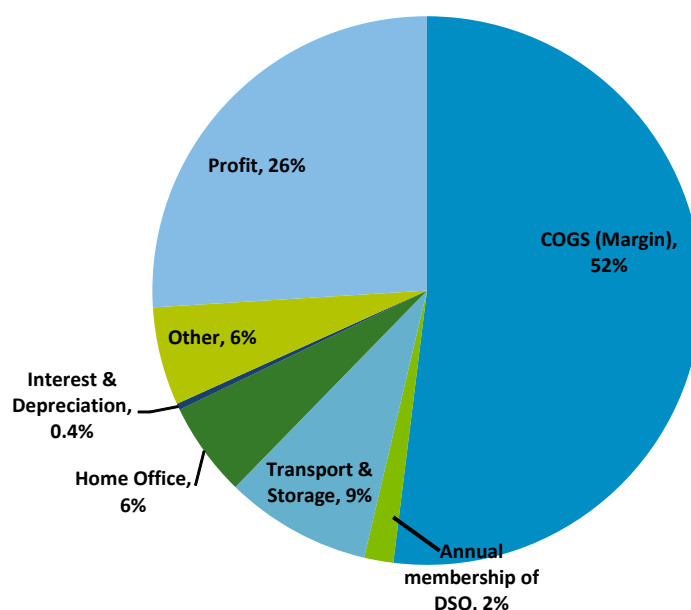
ISP inflows	\$ million	Share (%)
From DSO (Commissions, Bonuses etc.)	346	52
From Sales (Margins on resales)	323	48
<b>Total</b>	<b>669</b>	<b>100</b>

Source: Deloitte Access Economics calculations

For ISPs, total revenue less COGS and annual membership was \$669 million dollars in 2012. The total margins on resales, \$323 million, are the size of the industry not included in the DSO's revenue. By adding this margin figure to the total industry DSO revenue of \$1.13 billion, total ISP revenue is estimated to be \$1.46 billion.

Chart 4.4 is the revenue split for the average Australian ISP. A majority of an ISP's revenue is spent on purchasing the goods outright from the DSOs. This breakdown takes into account all ISPs in the industry, including those who only participate for personal consumption.

**Chart 4.4: Total Revenue split for the average Australian ISP, 2012**



Source: Deloitte Access Economics calculations

Due to the different income structures ISPs have, any individual ISP would be expected to have different revenue split to the industry average. ISPs on commission-based remuneration plans have little or no COGS and consequently a higher share for both profit and annual membership. Those working on a margin-based remuneration plan would have a greater COGS share relative to revenue.

**Table 4.3: Expense breakdown for all ISPs, 2012**

Expense	\$ million
Payments to DSOs	
COGS	756
Annual membership of DSO	25
Transport/storage	125
Home office	81
Other	90
<b>Total expenses</b>	<b>1,077</b>
<b>Total revenue</b>	<b>1,455</b>
<b>Profit</b>	<b>378</b>

Source: Deloitte Access Economics calculations

In 2012, \$780 million was paid directly from ISPs to DSOs, through purchasing goods and paying for annual membership.

## 4.3 Direct employment contribution

The industry directly employs staff working for the DSOs as well as ISPs.

In 2012 DSOs spent an average of \$85,700 in wages per full time equivalent (FTE) employee, e.g. in head office. By contrast, average yearly full time adult earnings in the Transport, Postal and Warehousing industry were estimated to be around \$74,000 in May 2013, suggesting that average wages in the direct selling industry are higher than comparable industries.<sup>9</sup>

Table 4.1 above showed that a total of \$195 million was spent on wages by all DSOs, which implies 2,271 FTEs were employed directly by DSOs in 2012. Additional to this is the jobs of the ISPs. As there is a large share of ISPs that purchase goods from DSOs for their own personal consumption, the ISP survey respondents were split into those who participate in the industry to make money and those who buy the goods from their own consumption. This implies an average profit, for working ISPs, of a little over \$25 per hour, which in turn implies around \$49,000 per year in earnings for a FTE ISP. In 2012, industry wide ISP profits were \$378 million, translating to 7,724 FTEs working ISPs. Summing the FTEs of the DSOs and ISPs suggests in 2012 there was a total of 9,995 directly employed DSO employees and ISP.

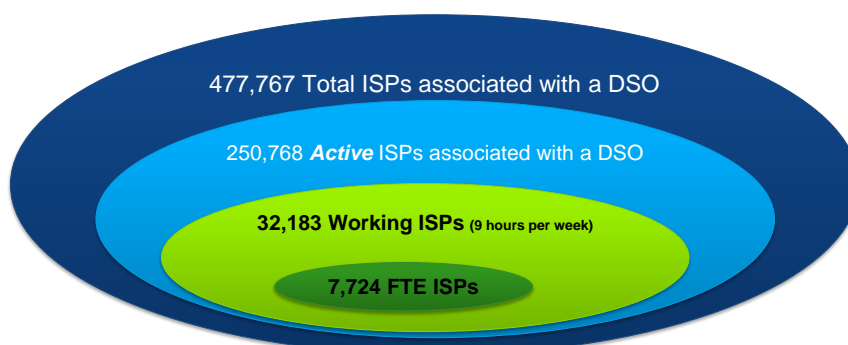
**Table 4.4: Direct employment from direct selling, 2012**

DSO Wages	\$195 million
Annual Labour Cost per FTE	\$85,713
DSO FTEs	2,271
ISP profits	\$378 million
Profit / hour	\$25.10
Effective annual ISP salary	\$48,952
ISP FTEs	7,724
<b>Total FTEs</b>	<b>9,995</b>

Source: Deloitte Access Economics calculations. Note: FTE assumes full-time working week of 37.5 hours.

As of the end of 2012, the DSO surveys suggest there were over 475,000 ISPs registered with DSOs, of which 250,000 were active. Active ISPs are defined ISPs who made a sale in the last 3 months, working ISPs are those who spend at least 9 hours per week on direct selling activities. Many of these ISPs purchase the goods for their own consumption and don't work any hours during the week. There are 7,700 FTE ISPs that work 37.5 hours a week, but based on the 9 hours per week survey average, there are over 32,000 ISPs working.

<sup>9</sup> Average weekly ordinary time earnings in the industry were estimated as \$1,425 in May 2013. ABS, Cat No 6302.10.

**Chart 4.5: ISPs in the direct selling industry, 2012**

Source: Deloitte Access Economics calculations

## 4.4 Value added by the direct selling industry

In 2012, the direct selling industry generated \$687 million of direct value added. Of this, \$378 million (55%) came from the mixed income ISPs received; \$195 million was paid in wages to those employed by the DSOs, and the remaining \$115 million was profits for the DSOs (Table 4.5).

**Table 4.5: Direct value added by DSOs and ISPs, - 2012**

Direct value added	\$ million
DSO	
GOS	115
Wages	195
ISP	
Mixed Income	378
Direct Value Added (\$ Million)	687
Direct Employment (# FTE)	9,995

Source: Deloitte Access Economics calculations

Input output tables are used to account for the flow of intermediate goods from the direct selling industry towards other parts of the economy. Other industries benefit from flows from the direct selling industry through additional employment and gross output. The Transport support services and Storage sector benefits the most with 590 FTEs created and an additional \$247 million worth of output. The Professional, Scientific and Technical Services sector gains 280 FTEs and \$62 million worth of output. The basic chemical manufacturing sector also benefits with \$170 million worth of output and 155 FTEs.

There was a total of \$768 million spent on intermediate inputs, of which \$355 million came from DSOs purchasing goods. About 65% of the goods were imported from overseas. DSOs also paid a total of \$123 million in rent, transport & storage, financing, and other overheads. ISPs spent \$291 million on intermediate inputs in 2012 this was mainly on transport & storage of goods to be sold (Table 4.6).

**Table 4.6: Intermediate inputs used by DSOs and ISPs, 2012**

<b>Intermediate inputs</b>	<b>\$ million</b>
DSO Intermediate inputs	
COGS (Domestic)	123
COGS (International)	232
Overheads	123
ISP Intermediate inputs	
Transport & Storage	125
Home Office	81
Other	84
<b>Total</b>	<b>768</b>

Source: Deloitte Access Economics calculations

In 2012, expenditure on goods and services produced in other parts of the economy was \$768 million. This expenditure on intermediate inputs by the direct selling industry generated \$478 million flow-on contribution towards the rest of the economy.

**Table 4.7: Indirect contributions from intermediate inputs, 2012**

<b>Indirect contribution</b>	
Value added (\$ million)	478
Employment (FTE)	2,395

Source: Deloitte Access Economics calculations

#### 4.4.2 Total economic contribution

The direct selling industry makes a significant contribution to the Australian economy. The economic contribution of the industry to Australia is estimated to be \$1,166 million in 2012.

As part of its economic contribution, the direct selling industry supports employment in the Australian economy. There is approximately 9,995 FTE jobs directly employed in the industry with a further 2,395 employed indirectly. In 2012, the total economic contribution to the economy (by the direct selling industry as represented by the DSAA membership only) was estimated to be 1.17 billion and 12,390 FTE jobs (Table 4.8).

**Table 4.8: Total Economic contribution of the Direct Selling Industry, 2012**

<b>Total contribution</b>	
Value added (\$ million)	1,166
Employment (FTE)	12,390

This estimate is a conservative estimate of the actual economic contribution of the direct selling industry. Nonetheless it indicates that direct selling is a significant part of the retail landscape; of comparable size to the value added and employment in the processed fruit and vegetable industry.<sup>10</sup>

<sup>10</sup> In 2009-10 industry valued added of the processed fruit and vegetable industry was estimated at \$1.239 billion, and employment was estimated at 13,000 in the same industry by the Department of Agriculture Fisheries and Forestry.

#### 4.4.2.1 Links to the community

Survey respondents that answered this question (6 DSOs answered this question) stated that they made charitable donations of between 1-2% of total revenue. Anecdotally, e.g. DSO websites suggest that DSOs are more active than this with some DSOs having established charitable relationships and foundations, sponsoring events and individuals.

**Figure 4.1: Case studies**

##### **Amway One by One foundation**

Amway has established the One by One Campaign for Children which encourages Amway organisations around the world, Amway employees and ISPs to engage in causes that support children in need. Over the past 10 years, the program has assisted more than 10 million children around the world, by providing monetary donations to a variety of causes. Since 2011, Amway Australia has made a number of donations including: \$150,000 to provide modified bicycles through Freedom Wheels; \$50,000 for the victims of the Queensland floods; \$20,000 for HeartKids Australia, to help the fight against childhood heart disease; and \$30,000 for Cystic Fibrosis and Indigenous literacy.

##### **Avon Breast Cancer Crusade**

The Avon Breast Cancer Crusade was launched in Australia and New Zealand in 1996. The program aims to increase awareness of breast cancer in the region and raise funds for research and patient support. Avon Sales Representatives and Customers in Australia and New Zealand have helped to raise more than \$11.7 million through sales of Avon's Pink Ribbon range.

##### **Lorraine Lea Linen Party for Kids with Cancer**

Lorraine Lea Linen established Party for Kids with Cancer in 1999; funds have been donated to various hospitals and charities. The program aims to improve the lives of children living with cancer. More recently, the company has established a partnership with children's cancer charity Camp Quality. Through the partnership the Lorraine Lea Linen will support Camp Quality projects and will encourage Australian and New Zealand sales representatives to volunteer at these events as well as organise their own fundraising parties.

Source: <http://www.amway.com.au/Content/Article?PageCode=aboutAmwayCommunity&c=EN-AU>, <http://www.avon.com.au/PRSuite/crusade.page>, <http://www.linenparties.com/public/community/kids-with-cancer.aspx>

# 5 Challenges for the industry

The Australian retail industry is characterised by a range of size of business and retail format. Competition is driving change in the industry, the result of the rise of online retail activity and increased competition from foreign companies selling into Australia.

While the direct selling industry faces the same challenges as the broader retail industry there are a number of specific issues the direct selling industry is facing including regulation, public perceptions, demographic change and online retailing.

## 5.1 Regulation

Regulation of the industry affects the capacity of the industry to compete on a level playing field. The Australian Consumer Law (ACL) is the main binding set of regulations on the direct selling industry.

From January 1<sup>st</sup> 2012 the ACL has regulated the unsolicited sale of goods and services.

An unsolicited consumer agreement is the sale of a good or service that:

- is made with a consumer;
- is negotiated in the presence of a dealer away from the supplier's business or trade premises or by telephone;
- does not result from a consumer inviting negotiations at a particular place or over the telephone; and
- is more than \$100 including GST.

The ACL includes provisions for the behaviour of an ISP when negotiating an unsolicited consumer agreement. The ACL also makes provisions for 'cooling off' rights of consumers. During the cooling off period, the supplier must not supply goods or services to the consumer unless the goods are under \$500 in value; or require or accept any payment, or other consideration.

### 5.1.1 Appropriateness of regulation

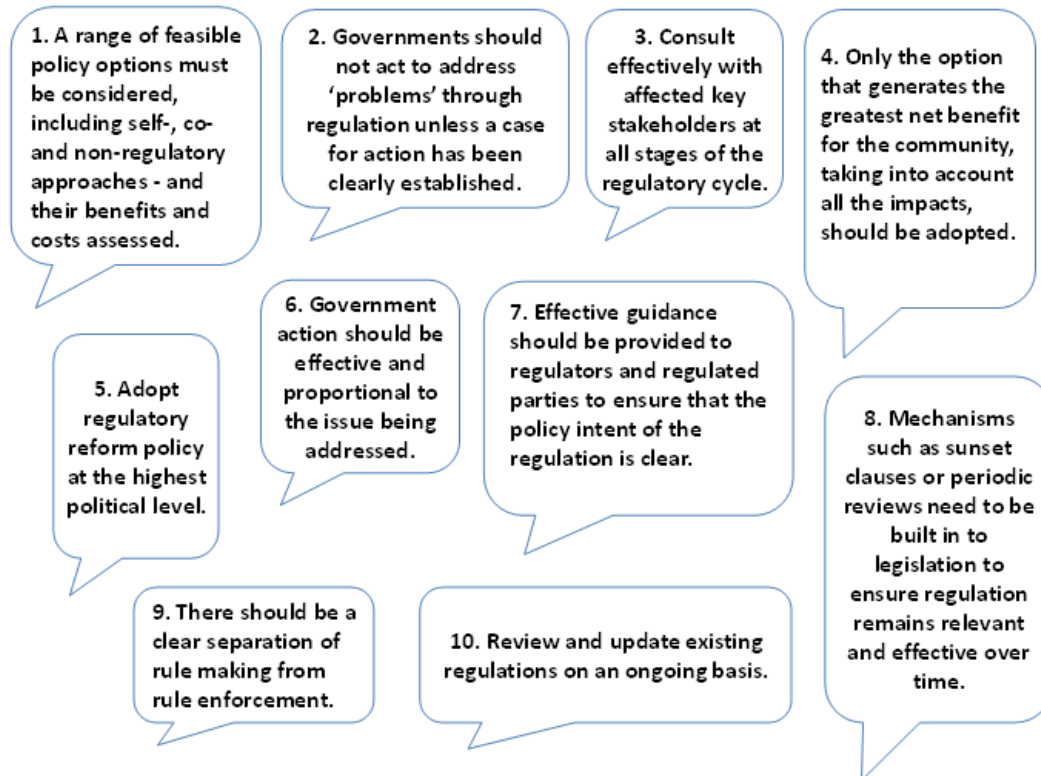
The regulatory environment faced by the direct selling industry is distinct in some ways from the general retail environment. The DSAA believes that there are specific issues with the design and wording of the unsolicited selling provisions in the ACL that impact the direct selling industry, including that:

- unnecessary costs are imposed in attempting to achieve underlying consumer protection objectives;
- the provisions are unduly prescriptive, uncertain, biased and ill targeted;
- in its application some provisions restrict competition and consumer choice, and
- regulatory development standards are not complied with or achieved in the development.

Regulation of the direct selling industry should adhere to principles of good regulation, as summarised, for example, in Figure 5.1 below.



Figure 5.1: Principles of good regulation



Source: Deloitte Access Economics, 2013.

The direct selling industry is part of the retail sector and is therefore subject to the laws that regulate the manufacture and supply of consumer products in Australia. Regardless of the type of direct selling model used if it is classified as unsolicited selling it is subjected to the additional regulation aimed at home selling (that is, anything that is not in store selling); placing an additional regulatory burden on DSO's and ISPs in a buy-resell context. The direct selling industry includes a number of small and medium businesses, additional regulations placed on these industries is relatively more burdensome as they may lack the capacity to ensure compliance.

One of the respondents to the DSO survey stated that the ACL is prohibitive to the consumer and business operations. The standard cooling off periods is sufficient protection for consumers. This allows consumers to use a product for 10 days and make an educated decision, the ACL requirements have the perverse impact of not allowing this choice, as the product is not received by the consumer for 10 days and does not have any protection if they do not want to keep it.

A review of regulation of the direct selling industry could help to increase the range of products available to consumers if beneficial or low-risk new products are not supplied to the Australian market, or supplied with considerable delay, compared with other developed countries. Similarly, a review could ensure that businesses are not missing out on opportunities due to unintended consequences of regulation.

The Productivity Commission (2011) notes that the requirements of the ACL have increased compliance costs for many retail businesses in the broader Australian retail industry. Regulatory

reform could reduce the burden of compliance costs on DSOs. Reducing excessive costs imposed on businesses, including direct costs (employing staff to deal with compliance), payments of fees and charges to cost-recovering regulators, and the hiring of third party advisers to assist with compliance and regulatory applications could lead to more profitable DSOs (Deloitte Access Economics, 2013).

## 5.1.2 Non fixed retail premises regulations

Through the introduction of the ACL, a number of changes have increased the regulatory burden for ISPs undertaking selling away from a fixed retail environment. This is in contrast to the level of regulation faced by other retailers (DSAA, n.d.).

### 5.1.2.1 Consumer credit and corporations legislation amendment

In 2011, the Commonwealth Treasury released an exposure draft Bill of changes to the National Credit Code. This included a proposal to ban the supply, or possible supply, of regulated credit facilities for an unsolicited supply of products.

Currently the ACL regulates unsolicited selling of consumer products of certain transactions taking place away from a fixed retail premise, which includes pre-disclosure and point of sale requirements such as 'cooling off' rights. During the cooling off period, the supplier must not supply goods or services to the consumer unless the goods are under \$500 in value; or require or accept any payment, or other consideration.

The National Credit Code (NCC) provides that if a purchase of goods or services is cancelled the related credit contract is void. The NCC and the National Consumer Credit Protection Act also prohibit unfair and unconscionable practices, as well as a stringent licensing regime for credit providers.

The DSAA argues that given the consumer protections inherent in existing legislation, the proposed changes to the supply of credit facilities are an unnecessary, and inequitable, burden on the direct selling industry.

### 5.1.2.2 Compliance with regulations

Product compliance is difficult for some DSOs. This may be as a result of regulations in Australia, requiring expensive and time consuming testing of products that have passed regulatory requirements in jurisdictions with comparable requirements.

The regulatory burden for selling can be significant, in particular ensuring that products pass the Therapeutic Goods Administration (TGA) requirements. This may be cost effective for large companies, but for small companies (like many DSOs) the cost can be prohibitive. A number of respondents to the DSO survey highlighted the prescriptive nature of regulations particularly as they relate to documentation requirements.

Also, overseas based head offices may be unwilling to make adjustments to products to fit into Australia's product regulations, due to the relatively high unit costs of small product runs.

It can be difficult for Australian-based firms to supply distributors in New Zealand because of a requirement for full audits for offshore based companies, regardless of their turnover in New Zealand. Difficulties importing, and the time take for TGA requirements and other regulatory bodies

– particularly as they differ from the United States were highlighted by DSOs as being a key concern for the industry.

## 5.2 Public perceptions

There are negative reactions to the industry and persistence of negative stereotypes in the media and, perhaps, amongst government and regulators. Some issues have been dealt with by, e.g. introducing measures to prevent bad practices; others require a better evidence base to test the validity of views. Respondents to the DSO survey highlighted damaging public perceptions as a key threat to the industry.

### 5.2.1 Pyramid selling

There is a perception amongst the public that direct selling is akin to pyramid selling. There was not consensus of this issue during consultations where it was both suggested that this perception was no longer held amongst the wider community and that it remained a concern for those involved in the industry.

One of the key aims of this report was to provide evidence which could help to shift this perception. The results of the ISP survey including high ISP satisfaction with remuneration, the average length of time in the industry and the high level of purchase for own use, suggest that there are long term opportunities within the direct selling industry.

Indeed, the survey of ISPs demonstrated that most (75%) ISPs do not manage a down-line, an indicator of a pre-requisite for pyramid selling. In light of this and in light of the primary benefit of the industry as viewed by ISPs was for their own consumption of goods suggests that pyramid selling is not an aspect of the direct selling industry.

### 5.2.2 High pressure selling

High pressure selling is an issue for customers and has been a focus of regulators too. In the case of a party plan, participants know and accept beforehand that a salesperson will be selling products at the event. If customers had a problem with high pressure selling two things would be expected: a high return of product rate; and a high number of complaints. However, almost all ISPs surveyed (80%) said they had not received a complaint in the last 12 months. Of those that have received complaints almost half of the complaints related to product quality and a further 20% related to delivery times. This suggests that it is not high pressure selling per se that affects customers. Nonetheless, given the recent regulatory focus of these issues it is important for the industry to continue to address these perceptions.

## 5.3 Demographic change

Australia is undergoing a demographic shift. As Australia's ageing population moves towards retirement there are a few key issues that participants in the direct selling industry should consider.

The direct selling industry is often perceived as an activity for older generations. However, as demonstrated in section 3.1.1 above, many ISPs and sellers are between 25 and 45 years old. This relatively youthful workforce will be a key to the future of the industry; Gen Y has a significant presence in the direct selling industry.

The structure of fees and commissions payable in the industry mean that ISPs who are no longer actively involved in the industry are still able to earn income through their downline, thus providing ongoing income through retirement.

With the ageing demography of the population in general issues of succession will affect direct selling as they affect other business. One of the differentiating features of direct selling is that it is possible to earn income from a downline well into retirement years.

## 5.4 Online retail

The online retailing environment is having an increasing effect on direct selling as well as the traditional 'bricks and mortar' models. Online retailing offers a wider range of consumer options at a low cost and convenience. Recent issues for the overall retail industry that have been caused by this include, GST not applying to goods purchased online from overseas.

To promote equality of taxation, many retailers support a low-value threshold exemption for GST and duty on imported goods to be lowered from \$1,000 (its current threshold). Currently, the Australian Competition and Consumer Commission is also addressing issues of local retailers blocking online sales of international affiliates. How these issues have impacted, and will continue to impact, the direct selling industry is yet to be determined.

The connections between the different direct selling retail models are likely to have been hastened by the growing importance of the internet for the Australian retail industry (DSAA, 2011). Increasingly, sales made via the internet present both challenges and opportunities for the direct selling industry.

One of the DSOs consulted has embraced an online system for marketing to their customers. This entails gathering email addresses from customers which are linked to consultants – this gives consultants another avenue to follow up with their customers, by phone.

### 5.4.1 Interactions with customers

There was varying degrees of interaction between the DSO's and their customers; some will deliver only to the ISP while others will deliver directly to the consumer. Consultations indicated that for some DSOs and ISPs this was a much easier, and cost effective, process for their consultant. Online and digital communication will change the way that DSOs and ISPs interact with their customers.

The demographics of those who are more likely to use the internet, compared to the demographics of the traditional direct selling consumer are seen as a major challenge for the industry. Online retail buying has largely been taken up Generations X and Y, rather than older generations. Adapting direct selling to the preferences of younger generations is a key challenge for the industry. But the survey suggests these concerns may be overstated.

At the same time, there are considerable opportunities from the online retail environment. Internet sales by ISPs may have an advantage due to superior product knowledge, and where they are known to the consumer, consumer trust and after sales service; the overriding driver is personal relationships.

Consultations suggested that members of the DSAA have already begun make use of a range of digital applications, supporting and complementing face-to-face selling with online ordering and

payment facilities. Responses to the survey indicated that DSOs recognise the importance of online and digital technologies. For example in response to the question of opportunities for the industry responses included,

*Technology advancements with smart phones and tablets will provide an enhanced selling environment while reducing double handling by our salesforce.*

*Leverage other channels tied into the consultant, i.e. Internet, technology, digital marketing to stimulate growth*

The flexibility of the industry to continue to adapt to these changes, relative to traditional bricks and mortar retail, is demonstrated by the significant proportion of DSOs (47%) which allow for online retailing (Monash Study 2010).

#### 5.4.2 Adapting to change

The ability to stay ahead of technological change was noted in the DSO survey as important to remaining a viable alternative. Indeed, one respondent noted that as consumers become more time poor, there is likely to be a shift away from traditional direct selling methods, such as party plan, towards online.

Consultations suggested that most DSOs are concentrating on direct selling, and only starting to take advantage of new digital technologies – with a few exceptions, DSOs are not ‘first adopters’.

- The firms have online sales, although generally routed through ISPs rather than direct to DSO.
- Facebook is used to get feedback from distributors rather than customers. Despite concerns about how to engage with Gen-Y, Facebook marketing has not been adopted widely.
- Email is used to maintain contact with customers, e.g. providing special offers and news of new products. Email is also used to assist ISPs, e.g. providing ‘warm call reports’.

# 6 Conclusions

The direct selling industry is an important aspect of the broader retail industry. The industry directly and indirectly employs almost 13,000 FTE as well as 250,000 actively involved in the industry either as consumers or sellers of products. However, despite the significant role that the sector plays in the industry there remains a number of issues that need to be addressed.

## 6.1 Key messages

Direct selling makes an important socio-economic contribution to the Australian economy.

- By providing flexible working option the direct selling industry increases workforce participation and boosts productivity and equity in the Australian economy.
- Direct selling is an important alternative to traditional bricks and mortar retailing, providing competition, innovation and a wider choice of retail options to consumers.
- There are clear social benefits including providing additional income to individuals earning low incomes, promoting self-confidence for those involved in the industry and encouraging social interaction, which is particularly important in regional areas of Australia.
- Criticisms of the industry are not clearly supported by the evidence. That said, the evidence base for the industry is patchy and a motivation for this report.
- There are a number of challenges that the industry will need to address including a review of regulation to ensure that it is not unduly restrictive, understanding how the industry can best respond to technological change and digital disruption and responding to negative public perceptions that exist in pockets of the community.

## 6.2 Outstanding issues and areas for future research

### 6.2.1 Response to survey

Many DSOs completed the survey and represent a significant share of the industry in Australia, however the extent to which the questions were answered varied. There was a significant ISP response to the survey. While responses were received for more than half of the DSOs there was concentration around certain DSOs. Increased response rates will provide more confidence in results and allow for granular analysis; e.g. at the product level.

### 6.2.2 True size of industry

The economic contribution outlined above only includes DSOs, and their ISPs who are members of the DSAA. Estimates do not include international based and private companies not members of the DSAA and may not provide information on their activities in Australia. The size of the industry presented in this report is a conservative estimate of the industry.

### 6.2.3 Data

There is limited official data comparing the level of complaints across retail industries. In particular there is limited data around issues that are perceived to be a problem for the direct selling industry.

### 6.2.4 Areas for future research

An economic impact analysis of the direct selling industry begins with a baseline 'business as usual' estimate. From this baseline it is possible to estimate the impact of different policy scenarios for a range of aggregates such as sales level or employment impacts within the industry. Possible policy scenarios which can be modelled include an increase in the labour supply as a result to the increased labour force flexibility provided by the sector.

Future research could help to understand the impact, including the size of the impact, that some of the challenges outlined in section 5 above may have on the industry.

# Appendix A: Surveys

The broad themes that were used to aid understanding the industry were also employed to design the surveys, help frame the analysis and guide the layout of the report and model outputs. Following this path, the surveys were structured as follows:

## Themes for the survey of DSOs:

1. **Nature of the business – how does your firm fit into the retail landscape?** The aim of these questions is to place direct selling in the broader retail landscape. Many people do not understand or are distrustful of direct selling. There are a range of sales channels and sales techniques available to retailers, so it is important to be able to explain how direct selling has a legitimate role to play.
2. **Financials – what is your bottom line and how do you get there?** The aim of this question is twofold; 1) to profile the industry by obtaining financial and other information necessary for estimating the economic contribution of direct selling in Australia; and, 2) to test negative perceptions of DSOs taking advantage of ISPs, e.g. high turnover, pyramid selling.
3. **Sales force – what is your relationship with the people who sell your product?** The aim of this question is to understand the working relationship between the DSOs and ISPs. Like all businesses, DSOs must engage, support and retain ISPs.
4. **Customers – what is your relationship with the people who buy your product?** The aim of this question is to understand who is purchasing the products and what motivates them to purchase goods via direct selling.
5. **Regulation and other issues – what other factors affect the success of your business?** This question aims to establish what effect the current regulations have on direct selling and what potential changes or improvements could be made.

## Themes for the survey of ISPs:

1. **Demography – who are you?** The aim of this question is to understand the demographic profile of ISPs in the direct selling industry. This will be particularly useful in demonstrating the role of the direct selling industry in allowing discouraged/detached people to earn additional income, highlighting the direct selling industry as a “kindergarten” for small business owners and as a means for people who would not otherwise participate in paid employment.
2. **Effort – how much effort do you put into direct selling?** This question will enable estimation of per-hour earnings of sellers in the direct selling industry. This will also help to explain the extent that direct sellers are involved in the industry, for example, is direct selling part-time employment to earn supplementary income?
3. **Participation – why are you involved in direct selling?** The aim of this question is to understand the motivation for direct sellers to participate in the industry. This highlights where the direct selling industry sits in terms of advantages of direct selling relative to other paid employment.
4. **Financials – what are your income and expenses?** The aim of this question is to provide input into the economic contribution estimate and as a cross reference to the financial responses provided by DSOs.



5. **Benefits – what are the non-financial rewards of direct selling?** The aim of this question is to highlight the key social impacts of the direct selling industry, and through case studies draw out some of the personal benefits from participating in the direct selling industry.
6. **Customers - what is your relationship with the people who buy your product?** This question attempts to address some of the criticisms of the industry such as high pressure selling. This question will also highlight how online retailing is changing nature of the direct selling industry and how ISPs interact with customers.

## **DTermine**

The survey development was conducted by Deloitte's survey and benchmarking platform, DTermine™, providing managed hosting, deployment and reporting of existing or tailored online surveys to a nominated set of respondents.

# Appendix B: Economic contribution studies

## Contribution – the general approach

Economic contribution studies are intended to quantify measures such as value added, exports, imports and employment associated with a given industry or firm, in a historical reference year. The economic contribution is a measure of the value of production by a firm or industry.

## Value added

Value added is the most appropriate measure of an industry's/company's economic contribution to gross domestic product (GDP) at the national level, or gross state product (GSP) at the state level.

The value added of each industry in the value chain can be added without the risk of double counting across industries caused by including the value added by other industries earlier in the production chain.

Other measures, such as total revenue or total exports, may be easier to estimate than value added but they 'double count'. That is, they overstate the contribution of a company to economic activity because they include, for example, the value added by external firms supplying inputs or the value added by other industries.

## Measuring the economic contribution

There are several commonly used measures of economic activity, each of which describes a different aspect of an industry's economic contribution:

- **Value added** measures the value of output (i.e. goods and services) generated by the entity's factors of production (i.e. labour and capital) as measured in the income to those factors of production. The sum of value added across all entities in the economy equals gross domestic product. Given the relationship to GDP, the value added measure can be thought of as the increased contribution to welfare.

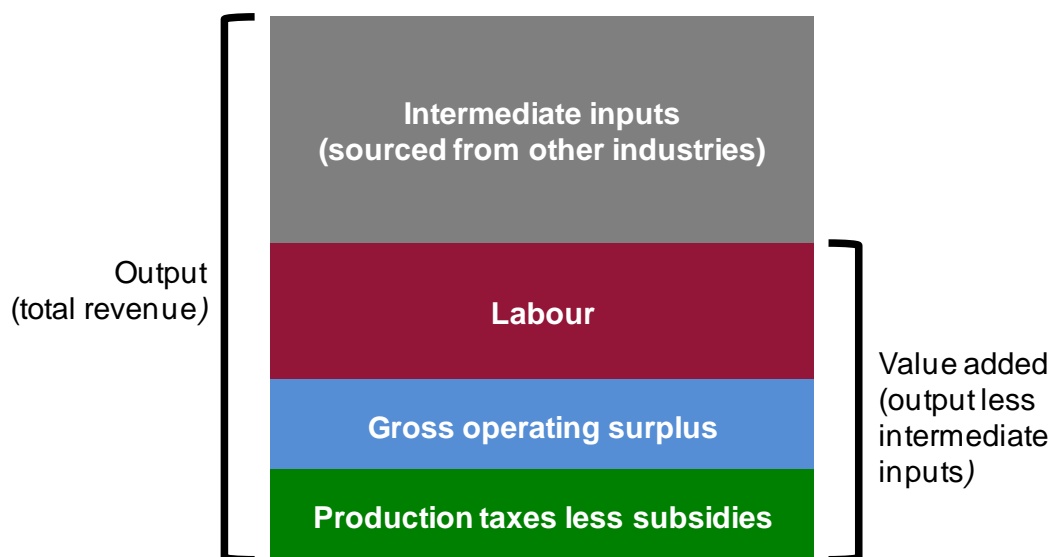
Value added is the sum of:

- Gross operating surplus (GOS). GOS represents the value of income generated by the entity's direct capital inputs, generally measured as the earnings before interest, tax, depreciation and amortisation (EBITDA).
- Tax on production less subsidy provided for production. This generally includes company taxes and taxes on employment. Note: given the returns to capital before tax (EBITDA) are calculated, company tax is not included or this would double count that tax.
- Labour income is a subcomponent of value added. It represents the value of output generated by the entity's direct labour inputs, as measured by the income to labour.

- **Gross output** measures the total value of the goods and services supplied by the entity. This is a broader measure than value added because it is an addition to the value added generated by the entity. It also includes the value of intermediate inputs used by the entity that flow from value added generated by other entities.
- **Employment** is a fundamentally different measure of activity to those above. It measures the number of workers that are employed by the entity, rather than the value of the workers' output.

Figure B.1 shows the accounting framework used to evaluate economic activity, along with the components that make up gross output. Gross output is the sum of value added and the value of intermediate inputs. Value added can be calculated directly by summing the payments to the primary factors of production, labour (i.e. salaries) and capital (i.e. gross operating surplus (GOS), or profit), as well as production taxes less subsidies. The value of intermediate inputs can also be calculated directly by summing up expenses related to non-primary factor inputs.

**Figure B.1: Economic activity accounting framework**



Source: Access Economics.

## Direct and indirect contributions

The **direct** economic contribution is a representation of the economic flows from labour and capital in the company.

The **indirect** contribution is a measure of the demand for goods and services produced in other sectors as a result of demand generated by direct selling. Estimation of the indirect economic contribution is undertaken in an input-output (IO) framework using Australian Bureau of Statistics input-output tables which report the inputs and outputs of specific sectors of the economy (ABS 2013).

The total economic contribution to the economy is the sum of the direct and indirect economic contributions.

## Limitations of economic contribution studies

While describing the geographic origin of production inputs may be a guide to a firm's linkages with the local economy, it should be recognised that these are the type of normal industry linkages that characterise all economic activities.

Unless there is significant unused capacity in the economy (such as unemployed labour) there is only a weak relationship between a firm's economic contribution as measured by value added (or other static aggregates) and the welfare or living standard of the community. Indeed, the use of labour and capital by demand created from the industry comes at an opportunity cost as it may reduce the amount of resources available to spend on other economic activities.

This is not to say that the economic contribution, including employment, is not important. As stated by the Productivity Commission in the context of Australia's gambling industries:<sup>11</sup>

*Value added, trade and job creation arguments need to be considered in the context of the economy as a whole ... income from trade uses real resources, which could have been employed to generate benefits elsewhere. These arguments do not mean that jobs, trade and activity are unimportant in an economy. To the contrary they are critical to people's well-being. However, any particular industry's contribution to these benefits is much smaller than might at first be thought, because substitute industries could produce similar, though not equal gains.*

In a fundamental sense, economic contribution studies are accounting exercises. No 'what-if', or counterfactual inferences – such as 'what would happen to living standards if the firm disappeared?' – should be drawn from them.

The analysis – as discussed in the report – relies on a national input-output table modelling framework and there are some limitations to this modelling framework.

The IO framework and the derivation of the multipliers applied assumes that the relevant economic activity takes place within an unconstrained environment. That is, an increase in economic activity in one area of the economy does not increase prices and subsequently crowd out economic activity in another area of the economy. As a result, the modelled total and indirect contribution can be regarded as an upper-bound estimate of the contribution made by the supply of intermediate inputs.

Similarly the IO framework does not account for further flow-on benefits as captured in a more dynamic modelling environment like a CGE model.

## Input-output analysis

Input-output tables are required to account for the intermediate flows between sectors. These tables measure the direct economic activity of every sector in the economy at the national level. Importantly, these tables allow intermediate inputs to be further broken down by source. These detailed intermediate flows can be used to derive the total change in economic activity associated with a given direct change in activity for a given sector.

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<sup>11</sup> Productivity Commission (1999), *Australia's Gambling Industries*, Report No. 10, AusInfo, Canberra, (page 4.19).

A widely used measure of the spill-over of activity from one sector to another is captured by the ratio of the total to direct change in economic activity. The resulting estimate is typically referred to as 'the multiplier'. A multiplier greater than one implies some indirect activity, with higher multipliers indicating relatively larger indirect and total activity flowing from a given level of direct activity.

The input-output matrix used for Australia is derived from the Australian Bureau of Statistics 2008-09 Input-Output Tables (ABS 2013). The ABS IO tables are built on the IOIG industry classification, a special-purpose industry classification that decomposes the Australian economy into 111 production sectors.

# Appendix C: Direct selling organisations

## **DSAA members** (as at the commencement of this project)

- 4Life
- 123 A Better Change
- ACN Pacific Pty Ltd
- Agel Australia Pty Ltd
- Amway of Australia
- Arbonne Australia Pty Ltd
- Avon Products Pty Ltd
- Become International Pty Ltd
- Bessemer Sales
- Crea Direct Pty Ltd
- Creative Memories Australia Pty Ltd
- Digital Crown Holdings Pty Ltd
- Dine-Rite Pty Ltd
- Dominant Homecare Products
- dusk at home
- Emma Page Pty Ltd
- Enagic Australia Pty Ltd
- Enjo Pty Ltd
- Envy Jewellery
- Essential Additions
- Esteem Jewellery
- Fifth Avenue Collection Pty Ltd
- FreeLife International Australia Pty Ltd
- GNLD International Pty Ltd
- Herbalife Australasia Pty Ltd
- Homecare Direct Shopping Pty Ltd
- Intimo Lingerie
- Isagenix (Asia/Pacific) Australia Pty Ltd
- Jeunesse Global Australia Pty Ltd
- Just One Village Pty Ltd
- Kaszazz Pty Ltd
- Le Reve Pty Ltd

- Life Force Australasia Pty Ltd
- Lorraine Lea Linen Pty Ltd
- Mannatech Swiss International GmbH T/A Mannatech Australia
- Mary Kay Cosmetics Pty Ltd
- Mercedes Black Pty Ltd
- Miglio Australia Pty Ltd
- Morinda International Pty Ltd
- New Image International
- Neways International (Australia) Pty Ltd
- Niagara Therapy
- Nikken Wellness Pty Ltd
- Norwex Australia Pty Ltd
- NSA (Australia) Pty Ltd
- Nu Skin Australia Inc.
- Nutrimetics Australia Pty Ltd
- Oasis Homewares
- PartyLite Pty Ltd
- Pash Australia Pty Ltd
- Penny Miller Pty Ltd
- Phoenix Trading (Aust) Pty Ltd
- Postie Fashions Pty Ltd
- Pro-Ma Systems (Aust) Pty Ltd
- Reliv Australia Pty Ltd
- SendOutCards Australia
- Stampin' Up! Australia Pty Ltd
- Sunrider International Australia
- Swipe (Australia) Pty Ltd
- Synergy WorldWide Australia Pty Ltd
- The Body Shop At Home
- The Chef's Toolbox Pty Ltd
- The Commonwealth Key & Property Register
- Thermomix in Australia
- TriVita Australia Pty Ltd
- Tupperware Australia Pty Ltd
- UnderCoverWear
- USANA Australia Pty Ltd
- Your Inspiration at Home

### **USDSA members** (that operate in Australia but are not DSAA members)

- Amkey
- Energetix
- Gano Excel
- Global Domains
- Jeunique
- Kirby
- Lifeware
- Limu Company
- Melaleuca
- Princess House
- Rexair
- Saladmaster
- Stemtech
- Unicity
- Vollara
- World Book
- Xango



## Appendix D: Literature review and other references:

**Peterson, RA and Wotruba, TR 1996, 'What is direct selling? Definitions, perspectives and research agenda', *The Journal of Personal Selling and Management*, 16(4):1-16.**

Peterson and Wotruba outline three perspectives of direct selling which provide a framework for defining the industry.

- **Operational perspective:** The operational perspective encompasses two major elements, 'face-to-face selling' that is 'away from a fixed location', and two important features of direct selling which differentiates this method from traditional retail selling. Firstly, direct selling is akin to relationship marketing, where relationships between buyers and sellers are promulgated and maintained over periods of time. Secondly, this perspective highlights the different location characteristic of direct selling; it is non-retail store retailing that takes place outside traditional retail locations.
- **Tactical perspective:** The operational perspective of direct selling presents a straight forward buyer-seller relationship. In practice however, the different characteristics of direct selling organisations and independent sales people (ISP) have implications for both the selling and recruiting tactics employed. Direct selling can be characterised by:
  - the relationship between the direct selling organisation (DSO) and the sales people;
  - the type of sales person;
  - whether selling agents are part-time or full time;
  - whether the selling effort occurs in a home or elsewhere;
  - whether it is a transaction-oriented or relationship-oriented;
  - whether it follows a party plan format;
  - whether pre-notification is used;
  - whether compensation is multi-level;
  - the extent to which selling agents are also customers;
  - whether selling agents take physical possession of products; and
  - the manner in which purchases are delivered to customers and payment is obtained from customers.
- **Strategic perspective:** From the strategic perspective direct selling can be viewed as a way of organising sales and selling activities. Direct selling is a channel or mode of distribution for retail goods, a method for gaining access to a market, or a way of doing business.

**DSAA and Russell Kennedy 2012, 'Legal compliance and risk management guide for members of the direct selling association of Australia'.**

There are two main models of the relationship between a DSO and an ISP.

## Buy-resell model

Under the buy-resell model the DSO sells goods to the ISP at the DSO's wholesale price. The ISP is then authorised to re-sell to the retail consumer, at a retail price that they choose (there are recommended retail prices, but the final price is at the discretion of the ISP). The income earned by the ISP is the margin between the wholesale purchase price and the retail price (which is usually set according to the DSO recommendation), *plus* any commissions or bonuses payable under the DSO's compensation plan, *less* any costs incurred in selling (such as hosting the party or associated travel).

## Commission-agency model

The DSO appoints the ISP to act as an independent facilitator of the sale of goods or services, with the transaction taking place between the DSO and the retail consumer. For example, an ISP will sell a product to a consumer and the DSO will then deliver the product to the customer without the ISP gaining legal title over the goods. Income earned by the ISP consists of the commission on the retail sale plus any other commissions or bonuses payable under the applicable compensation.

Direct selling organisations in Australia and New Zealand operate according to one or more business methods:

- party plan;
- network marketing; and
- door-to-door / catalogue (direct marketing).

**Party plan** is the most well-known direct selling model, where the parties are used to generate sales of goods and services. Generally a prospective purchaser is invited to the home, workplace, or other setting by a host (who is not the ISP), with products then demonstrated by the ISP and sold to participants. Subsequent purchase of goods online is not uncommon with this method of direct selling.

**Network marketing** is a process in which ISPs will establish and maintain relationships that result in the sale of products. These relationships are not confined to a home or workplace and introductions may be solicited or unsolicited. There is a tiered compensation structure for ISP's involved in network marketing; ISP's earn income through the sale of products and as a percentage of sales for ISP's who they have 'sponsored' (trained and recruited). The tiered structure can sometimes be across several levels.

**Door-to-door / catalogue** is the process where cold canvassers doorknock prospective consumers. This may involve the ISP delivering and picking up catalogues without any interaction with the consumers, and physical contact between the ISP and consumer might not take place until delivery of the product. Unlike the other direct selling methods door-to-door selling involves little, if any, recruitment activity by ISP's.

## Monash University 2010, 'DSAA Industry Metrics'.

Previous analysis by the DSAA has highlighted the motivations for ISPs to be involved in the direct selling industry in Australia. More than half of the ISPs surveyed by the Monash University team indicated that personal consumption was one of the reasons for membership to their DSO. The low risk entry into the market and the ongoing business support offered by the DSOs was another primary motivating factor for ISPs.

The changing composition of the Australian workforce has had an impact on the direct selling industry. In particular, the increasing participation of women in the workforce is affecting the nature of participation in the direct selling industry by women. Evolving consumption patterns mean that dual income homes are becoming the norm, and the income earned by participants in the direct selling industry is evolving to reflect this. Previously an ISP may have joined the industry for a discrete period of time to earn income for a specific purchase. However, to sustain a continuous second income flow an ISP will need to be more actively, and continuously, involved in the industry.

The flexibility of the industry to adapt to these changes, relative to traditional bricks and mortar retail, is demonstrated by the significant proportion of their sales are facilitated through the Internet.

### **Brodie, S, Albaum, G, Der-Fa RC et al 2004, 'Public perceptions of direct selling: an international perspective', Westminster Business School Research Report**

In a survey of eight countries (including Australia) Brodie et al (2004) found that the primary motivating factor of retail consumers to purchase products through the direct selling retail channel is convenience, product need and appeal. Value for money and the service provided were also cited as important motivating factors. From the global sample, social obligation and image of direct seller were the least cited reasons for purchase by consumers.

### **DSAA 2007, 'Economic study and demographic profile of the direct selling industry in Australia'**

The DSAA estimates there are around half a million ISPs in Australia. ISPs participate in a range of activities. The level of involvement in the industry depends on the range of activities an individual chooses to participate in.

- An ISP may participate in personal selling activities.
- An ISP may become involved in the industry to acquire products at wholesale prices, becoming consumers of the goods in their own right.
- An ISP may actively recruit, train and manage a 'down line' of other ISPs using network marketing techniques, as well as undertaking their own personal selling activities.

The 2007 economic study of the industry undertaken for the DSAA found that sellers were more likely to be female, aged between 30-50 years, and earning less than \$1,000 from direct selling activities throughout the year.

### **Productivity Commission 2011, 'Economic Structure and Performance of the Australian Retail Industry', Report no. 56, Canberra.**

The regulatory environment faced by the direct selling industry is distinct in some ways from the general retail environment. The DSAA believes that there are specific issues arising from the Australian Consumer Law (ACL) for the direct selling industry include:

- poor design imposing unnecessary cost in attempting to achieve underlying consumer protection objectives;
- unduly prescriptive, uncertain, biased and ill targeted;
- restricting competition and consumer choice, and

- non-compliance with regulatory development standards.

The Productivity Commission also notes that for the broader Australian retail industry, the requirements of the ACL have increased compliance costs for many retail businesses.

The online retailing environment has also begun to have an effect on the more traditional ‘bricks and mortar’ and direct selling retail environments. Online retailing offers a wider range of consumer options at a low cost and convenience. Recent issues for the industry that have been caused by this include, lower GST taxation revenue, and increased postal and customs costs. To promote equality of taxation, many retailers support a low value threshold exemption for GST and duty on imported goods to be lowered from \$1,000 (its current threshold). Currently, the Australian Competition and Consumer Commission (ACCC) is addressing issues of local retailers blocking online sales of international affiliates. How these issues have impacted, and will continue to impact, the direct selling industry is yet to be determined.

### **Direct Selling Association of Australia December 2011 ‘Unsolicited Consumer Agreements’ and DSAA October 2011 ‘DSAA letter to the Hon David Bradbury MP.**

In 2011, the Commonwealth Treasury released an exposure draft Bill of changes to the National Credit Code (NCC). This included a proposal to ban the supply, or possible supply, of regulated credit facilities for an unsolicited supply of products.

Currently the ACL regulates unsolicited selling of consumer products of certain transactions taking place away outside a fixed retail premise, which includes pre-disclosure and point of sale requirements such as ‘cooling off’ rights.

The National Credit Code (NCC) provides that if a purchase of goods or services is cancelled the related credit contract is void. The NCC and the National Consumer Credit Protection Act also prohibit unfair and unconscionable practices, as well as a stringent licensing regime for credit providers.

The DSAA argues that given the consumer protections inherent in existing legislation, the proposed changes to the supply of credit facilities are an unnecessary, and inequitable, burden on the direct selling industry.

From January 1<sup>st</sup> 2012 the ACL has regulated the unsolicited sale of goods and services.

An unsolicited consumer agreement is the sale of a good or service that:

- is made with a consumer;
- is negotiated in the presence of a dealer away from the supplier’s business or trade premises or by telephone;
- does not result from a consumer inviting negotiations at a particular place or over the telephone; and
- is more than \$100 including GST.

The ACL includes provisions for the behaviour of an ISP when negotiating an unsolicited consumer agreement. The ACL also makes provisions for ‘cooling off’ rights of consumers. During the cooling

off period, the supplier must not supply goods or services to the consumer unless the goods are under \$500 in value; or require or accept any payment, or other consideration.

### **DSAA May 2011 'Response to the Issues Paper by the Direct Selling Association of Australia'.**

The connections between the different direct selling retail models outlined above is likely to have been hastened by the growing importance of the internet for the Australian retail industry (DSAA, 2011). Increasingly, sales made via the internet presents both challenges and opportunities for the direct selling industry.

The demographics of those who are more likely to use the internet, compared to the demographics of the traditional direct selling consumer are a major challenge for the industry. On-line retail buying has largely been taken up by Generations X and Y, rather than older generations. Adapting direct selling to the preferences of younger generations is a key challenge for the industry.

At the same time, there are considerable opportunities from the on-line retail environment. Internet sales by ISPs may have an advantage over on-line sales by other types of retailers due to superior product knowledge, and where they are known to the consumer, consumer trust and after sales service; the overriding driver is personal relationships.

### **Thompson, K. 2009, 'Pyramid schemes: Saving the network marketing industry by defining the gray'.**

In **pyramid selling** the intention is to recruit additional distributors who purchase products for themselves, rather than the selling of products to customers, who are independent of the DSO. More simply, a pyramid selling scheme is one in which income is earned from recruitment of additional members, rather than the legitimate sale of products.

A number of legal issues concerning direct selling being used as a pyramid scheme have been discussed in the United States. *A key issue for the courts has been the difficulty of distinguishing between legitimate network marketing companies and illegal pyramid schemes.*

The courts have found that certain safeguards can prevent organisations being deemed to be pyramid schemes. The 'Amway safeguards', were that sellers must sell to 10 customers a month and that 70% of products must be sold to bona fide customers.<sup>12</sup> In other cases, courts have found that a tiered scheme, in which ISPs must make sales of 400 US dollars a month to find customers outside the network in order to obtain recruitment bonuses, was sufficient evidence to indicate that the organisation was not conducting a pyramid scheme.<sup>13</sup>

However, although this arrangement helps ensure that the product is sellable and that ISPs are engaged in selling to those outside the network, as more individuals are recruited the incentives to focus on recruitment will increase. Whether this is a concern ultimately depends on the extent to which purchases by recruits are converted into retail sales and will differ depending on the precise incentives in each multi-level remuneration scheme. Thomson noted that in some cases sales to non-

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<sup>12</sup> *Amway*, 93 F.T.C. at 26.

<sup>13</sup> *Order, The Secretary of State for Business Enterprise and Regulatory Reform v. Amway (UK) Limited, Nos. 2651, 2652 and 2653 at 57(b).*

participants constituted less than 5% of total sales. *Thus, the key metric for identifying the existence of pyramid schemes is the extent of sales to non-participants.*

## **Williams, S 2009, 'Give it a go: What have you got to lose?'**

'Give it a go: What have you got to lose?' is a guide for prospective ISP's. The book outlines the attributes of the three direct selling methods to assist prospective ISP's selecting the right selling method for them, the advantages and rewards of being involved in the direct selling industry, and outlines methods for success. A summary of the key points is provided below.

Certain products are suited to direct selling – rather than the broader retail industry – while other products are suited to certain direct selling methods. For example, fashion products are suited to party plan, and weight loss products are suited to network marketing.

There are a number of advantages for ISP's to be involved in the direct selling industry:

- Supplementary income;
- Flexibility around work hours;
- An entry point for start-up small business owners;
- Confidence;
- Friendship;
- Personal and professional development.

The challenges faced by ISP's in the direct selling industry are primarily issues working in a sole employee business such as managing your own time management problems of isolation and additional administration tasks. The possibility of negative attitudes of friends and family was also highlighted as a challenge for ISP's.

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