Economic and Social Influence of Direct Selling Industry in China
(2015)

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Contents

I. General Situation of the Direct Selling Industry

1. Direct Selling Model

Direct selling refers to sales made directly to customers, which is an old form of retail, originally referring to marketing and selling to end users from product makers without intermediate processes. Economics usually defines it as "The direct personal presentation, demonstration, and sale of products and services to consumers, usually in their or the customers' homes, at their workplaces or other locations other than retail stores."

World Federation of Direct Selling Associations (WFDSA) defines direct selling as marketing and selling product and service in a face-to-face way to customers in their or the customers' homes, at their workplaces or other locations other than fixed retail stores. This definition integrates all directing selling companies' understanding and knowledge for direct selling, and so it is widely accepted in different countries and regions.

Prohibition of Pyramid Selling Regulations and *Administration of Direct Selling Regulations* was promulgated by the China's State Council and took effect on November 1, 2005 and December 1, 2005 respectively, in which China has defined direct selling as marketing and selling of products to end users by direct sales person recruited by a direct selling company at places outside any fixed business locations.

Chinese government regards direct selling as a risky industry involving public interests, and therefore stipulates strictly conditions on registration of a direct selling company in the *Administration of Direct Selling Regulations*. A minimum registration capital of RMB 80 million and a security deposit of RMB 20 million are required and the products to be sold by such companies must be produced at their factories built in China mainland.

2. Direct Selling Industry

By the end of June 2015, the Ministry of Commerce has approved 61 direct selling enterprises (36 domestic enterprises and 25 foreign-invested ones), 394 branches and

13,473 service outlets, with footprint spreading 31 provinces, municipality and autonomous regions excluding Tibet in China.

About three fourths of direct selling companies are based in South China, mainly in Guangdong, Shanghai, Jiangsu and Zhejiang. Those in North China are concentrated in the two cities of Beijing and Tianjin. Most approved business regions of direct selling companies are located in the east and middle regions of the country, less than 20% of the registered companies are approved to carry out direct selling business in provinces in West China. Ranking of regions hosting direct selling companies: Guangdong (13 companies), Beijing (13 companies), Tianjin (12 companies), Jiangsu (11 companies) and Shanghai (11 companies)[1]. Hosting headquarters of these companies, these regions have higher open degree to direct selling. However, over recent couple of years, the coastal regions such as Zhejiang (8 companies), Fujian (8 companies) and Shandong (9 companies) and inland regions such as Sichuan (9 companies), Hunan (7 companies) and Henan (6 companies)[2] have also become hot areas where direct selling companies competing for businesses. The regions mentioned above are the ones that contribute a big part to the revenue of direct selling companies and where direct sales persons gather.

[1] Source: Direct Selling Industry Administration Information System of the Ministry of Commerce, the websites disclosing direct selling company information.

[2] Source: Direct Selling Industry Administration Information System of the Ministry of Commerce, the websites disclosing direct selling company information.

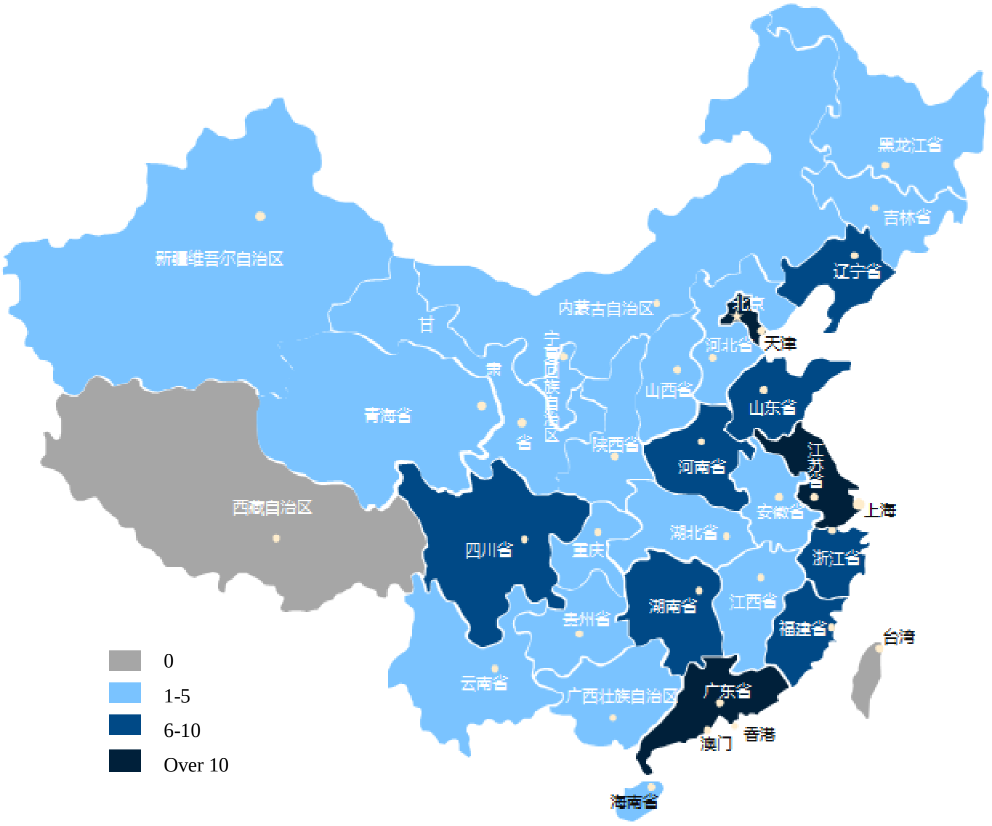


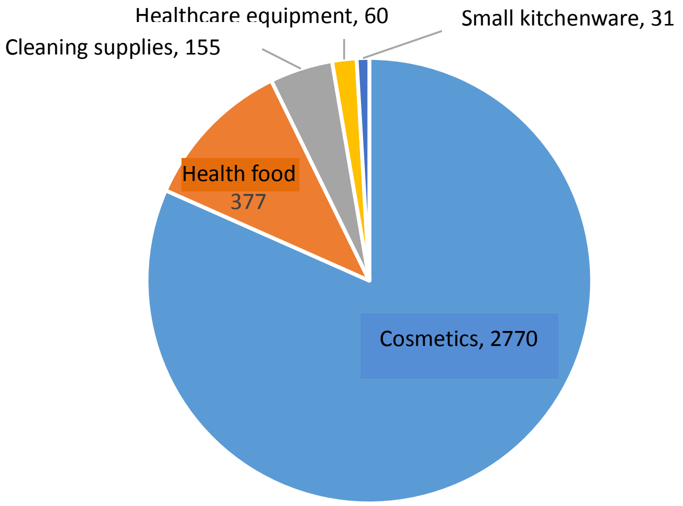
Figure 1-1 Regional Layout of Direct Selling Enterprises

3. Profile of Direct Selling Products

In the *Regulations on Administration of Direct Selling*, direct selling products are classified into five categories including cosmetics (covering personal care products and hairdressing and beauty products), health food (food that has been certified with the Health Food Certification by related authority), cleaning supplies (personal sanitary products and home cleaning products), healthcare equipment and small kitchenware.

By the end of 2014, among the total 3,393 kinds of direct selling products, 2,770 fall into the cosmetic category, the largest category that the direct selling companies sell. Health food, health and cleaning supplies, healthcare equipment and small kitchen ware are relatively small in terms of quantity of product. In regard of sales amount, cosmetic products and health food products contribute to 86% of the total sales.

Figure 1-2 Numbers of Direct Selling Products in Each Category in 2014



Source: Direct Selling Industry Administration Information System of the Ministry of Commerce

4. State of Business of Direct Selling Companies

By the end of 2014, the market scale of China's legitimate direct selling reached nearly RMB 135 billion, an increase of 68.7% over RMB 80 billion in 2011, which was a very high growth rate. However, this only shows that the direct selling industry scale has expanded as the number of direct selling companies having got the business license increased 18 companies from 2011. The expansion of direct selling industry scale is the joint result of the increase in both the number of licensed company and sales. In 2014, among direct selling companies, five achieved sales of tens of billions RMB, sharing more than 60% of the total industry sales, such a high industrial concentration is rare in industries in China.

Generally speaking, direct selling industry in the retail industry is still relatively small in scale. In 2014, the total retail sales of social consumer goods reached 26,239.4 billion RMB, up 12.0% in nominal growth and 10.9% in real growth, among which the urban consumer goods retail sales share 22,636.8 billion RMB, 11.8% of year-on-year growth and the rural one shares 3,602.7 billion RMB, an increase of 12.9% year on year. According to this figure, the sales of direct selling industry accounted for 0.51% of total retail sales of social consumer goods and 0.59% of urban consumer goods retail sales, a slight increase by 0.43% and 0.51% from 2011 in respective. Direct selling as a retail format will draw more and more attention. We notice that under increasing downward pressure on the Chinese economy, the entire direct selling industry is still growing at a rate not only exceeding the growth rate of GDP but also overtaking the growth rate of general retail industry, which demonstrates direct selling industry's unique characteristics in resisting market risk.

As a special retailing outlet, certain product categories will pay more and more attention on the way of direct selling. Based on market analysis on product category, the direct selling has remarkable performance in healthcare product market and cosmetic and skincare market. Statistics show that Chinese health food market size is about RMB 150 to RMB 160 billion, and it is conservatively estimated that the sales amount of the market realized by direct selling is approximately RMB 70 billion contributing to at least one third of the total sales of health food. Compared with the health food industry leader, a leader in the direct selling industry can achieve much higher sales result than traditional health food leader, which is the main reason some traditional health food companies favor the direct selling. What kind of modern tonic medicine can win Chinese consumer? According to the latest nationwide report released by IMS Health, the top five health care products welcomed by Chinese consumer in rank are protein powder, calcium supplements, and toxin expelling medicine, vitamin E and weight-losing products. It is estimated that more than 50 percent of products of these top five categories were purchased from direct selling companies. Situation is basically the same in cosmetic and skincare products market. In 2014, the retail sales of the market reached RMB 182.5 billion in total, accounting for 8.8% of the global cosmetics market and realizing an average compound annual growth of 10.8% over the past 10 years and making China one of the world's fastest-growing markets. The direct selling industry shares at least one fifth of the sales of skincare and make-up market, becoming one of the main channels for selling health food and cosmetic and skincare products.

II. Economic and Social Contribution of Direct Selling Industry

At present there is still dispute over the question of how to assess the social value of the direct selling industry. So we hope that through research and survey in a variety of ways provide some objective reference data for assessing and evaluating the direct selling industry.

First, the direct selling industry has a very significant role in promoting China's employment market. The direct selling industry’s contribution to employment can be seen from three aspects: firstly, it contributes to direct employment through directly hiring employees and by the end of 2014 there are over 50,000 employees in direct selling companies; secondly, it create income opportunities from direct seller aspect and as of the end of June 2015, official statistics show that there are 2.2 million direct sellers in direct selling companies in total, but according to the survey, the actual number is far beyond this level which is estimated between 8 million to 10 million. Direct seller is a large self-employed group different from formal employment by a company and due to lower employment threshold, direct selling industry is able to create a large number of self-employment opportunities. Since 2006, the direct selling industry had more than one million of sellers every year, there have been even a single direct selling company announced that it had more than one million of sellers. Because unstable income and high liquidity, it should not estimate the employment amount of direct sellers simply based on the number of direct sellers. According to the calculation conducted by the Research Center for Direct Selling at Peking University, considering income levels and mobility of direct sellers, 4 to 5 sellers could be converted into an employment opportunity. It is in particular need to point out that direct seller is a group hard to find job because most of them have low education diploma and poor professional skills. Survey shows that the education diploma of two-thirds of direct sellers is lower than junior college. Thirdly, it promotes employment from the aspect of distributors and suppliers of the direct selling company. Distributor is a vital link on the value chain of direct selling, without which it will be impossible to sell product by direct selling. Based on our survey on 9 direct selling companies, the number of distributors of these 9 companies is reaching 380,000, each having its own employees, which indicates that direct selling industry has driven millions of employment on the part of distributors. In addition, the 9 companies’ annual expenditure on logistics is as high as RMB 900 million having enormous driving impact on employment of logistics industry. Despite that the employment number of the fields such as manufacturing, research and development and distribution, the contribution of direct selling on the employment of these fields cannot be overlooked.

Second, direct selling has obvious role in driving consumption. As an initiative way of sell, direct selling has stronger capability to create consumption than normal ways of sell. A direct seller usually will at the recommendation of his or her acquaintance at first buy a product, and then recommend it to other people after confirming its utility. In this way, idle sell factor in the society can be mobilized to promote product sales at low cost. The highest record nationwide of sales of a single product category of health food is still maintained by the direct selling industry. Direct selling companies now have nearly 13 million members and preferred customers who are the service object of direct sellers and fixed customers of these companies. In a survey conducted in 20 cities, two-thirds of urban consumers had the experience of consuming direct selling products, which shows the extremely high penetration power of direct selling industry. In addition, the large direct seller group’s annual consumption in training, transport, tele-communication, travelling and interpersonal communication was significantly higher than the average level of common consumers. According to the survey, nearly 50 percent of direct sellers’ monthly spending within the direct selling companies is more than RMB 2,000; nearly a third of direct sellers spend from RMB 500 to RMB 1,000 in training, purchasing learning materials and other things for self-improvement. Apparently this group has big consumption potentials. Direct sellers have maintained their double-digit growth rate in past couple of years during China’s economic slowdown. The growth is closely related to the big purchase of direct sellers.

Third, the direct selling industry has relatively obvious effect on stimulating investment. There are currently more than RMB 40 billion is locked in registered capital of direct selling companies, which is just a static investment. The survey shows that a direct selling company will usually increase capital investment after 5 years of operation. The average increased capital investment by direct selling companies that have run businesses for about 10 years is RMB 200 million, demonstrating obvious effect on stimulating investment than common consumer goods manufacturing industry. In accordance with Chinese laws and regulations, direct selling companies shall have physical facilities, and few companies obtain facilities through outsourcing. According to a survey by the Direct Selling Research Center of Peking University in 2012, direct selling companies own manufacturing facilities of 17,000 sq m on average. The biggest plant may cover over 200,000 sq m. Investment increases with enhanced business scope. Based on statistics released by State Administration for Industry and Commerce (SAIC), from 2013 to 2014, new investment made by direct selling companies exceeded RMB 8 billion. A distinct characteristic of direct selling companies' investment is low debt ratio with majority of investment from existing capital. Direct selling companies attach great importance to R&D and the investment on which accounts for 3% of the sales revenue said in a survey conducted by Research Center for Direct Selling at Peking University by sampling related data of 11 direct selling companies. Therefore, we can see that a number of direct selling companies are taking the leading role in terms of R&D compared with companies involving in the similar product; for example, many health products were initiatively launched by direct selling industry and have been sold briskly. Most direct selling companies attach importance to investment in quality, and carry out assessment within quality management system including certifications such as ISO9001, HACCP, GMP, and RVA.

Fourth, direct selling industry has a very significant role in boosting supply chain. Direct selling industry has a more complete supply chain than consumer goods manufacturing industry. Survey shows that from raw material supply to product manufacturing there will be over 60 suppliers and over one hundred at maximum involved in average in a direct selling company. Since most of direct selling companies have health food manufacturing business, some of them purchase raw materials directly from farms, cooperatives or farmers, closely related to agriculture and farmers. According to the survey, direct selling companies that involve agricultural industrial chain can drive production of 7,000 farmers on average and increase their annual average income by RMB 8,400. In addition, on the sales chain, direct selling companies need to rely on a lot of distributors to offer service to direct sellers. During 2013 and 2014, there were more than 500,000 distributors on average entered into agreement with direct selling companies each year. With the rise of the internet, direct selling companies are leveraging internet technologies to reinvent the supply chain in an effort to transit towards platform economics whereby upstream and downstream players along the supply chain are part of an eco-system centered on the direct selling companies and share resources with each other.

Fifth, direct selling industry's honest tax payment makes great contribution to economic growth of the country and the region where the companies is located. Merely in one year of 2014, the total tax payment of direct selling companies and direct sellers reached RMB 5.696 billion, RMB 5.581 billion being the amount paid by direct selling companies, up 1.15% year on year and RMB 154 million being the figure paid by direct sellers, an increase of 19.18% year on year. It must be noted, though, according to direct selling regulations, official statistics for sales revenue of direct selling companies include only sales value by the salespersons, about RMB 25 billion, far below actual sales value of direct selling companies. Therefore, taxation paid by direct selling companies is far above official statistics. Take Amway for instance. Amway statistics show an annual tax payment of no less than RMB 6 billion. It means tax paid by Amway alone is bigger than the total of all direct selling companies across the country as accounted for by official statistics. In the past 10 years, the total tax payment of direct selling companies amounts to over RMB 80 billion. It must be noted though the above tax payment includes salespersons' tax due as withheld by the company. The distributors have to deal with very high tax rates as their tax payment is calculated as service commission rather than salary or wages. Despite the threshold of personal taxable income elevated to RMB 3,500, that of service commission is only RMB 800.

Sixth, direct selling industry practices public welfare works, playing a significant role in promoting public welfare and demonstrating a model and having wide social influence. Over 20 companies have released corporate responsibility reports, accounting for one third of licensed direct selling companies; nearly 30 companies have established corporate foundations or special public funds, accounting for half of the total number of direct selling enterprises. Over the ten years, the direct selling industry has donated an average of RMB 500 million to public welfare projects, RMB 5 billion in total, including education, health care, environmental protection, women and children and other public welfare fields. In case of major natural disasters and major accidents, direct selling companies are the most active group of donors, for instance, in Tianjin Port hazardous chemicals explosion accident, direct selling companies in Tianjin donated nearly RMB 50 million quickly. Therefore, direct selling industry has a strong driving force in the development of public welfare undertakings. Direct sellers participate in almost all public welfare activities and according to incomplete statistics, there were over 5 million person-time of participation of direct seller and other people in the industry in public welfare activities. In addition, under the promotion of the companies, there are numerous non-government welfare organizations founded by direct sellers, for instance, Amway has 200 volunteer service teams with over 60,000 direct sellers registered as volunteers. Thus, direct selling industry does incomparable influence than other industries to the society in terms of its contribution to social welfare activities.

Foundations or Special Public Welfare Foundations Established by Direct Selling Companies

Company Name	Name of Corporate Foundation or Special Public Welfare Foundation
Amway (China) Co., Ltd.	Amway Charity Foundation
Pro-Health(china) Co., Ltd.	Pro-health Independence Fund
BabyCare Co., Ltd.	BabyCare USANA True Health Foundation
Beijing Rolmex Technology Co., Ltd.	Rolmex Qiming Foundation
CNI (China) Co., Ltd.	CHI Foundation
Shanghai Vorwerk Household Appliance Manufacturing (Shanghai) Co. Ltd.	Vorwerk Family Foundation
Shanghai Fudi Health Technology Co., Ltd.	Guangdong Fudi Charity Foundation
Hainan Golden Aloe Industry Co., Ltd.	One Charity Foundation
Jilin Merro International Biology Technology Co., Ltd.	Merro International Charity and Relief Foundation
Shaklee (China) Co., Ltd.	Shaklee China Foundation
Jiangsu Alphay Biology Technology Co., Ltd.	Alphay Love Charity Foundation
Jiangsu Longrich Bioscience Co., Ltd.	Longrich Family Ophthalmology Charity Foundation
KaslyJu (Tianjin) Co., Ld.	Tasly Community Sanitation Special Entrepreneurship Foundation
Herbalife (China) Health Products Ltd.	Herbalife Family Foundation
Kangmei Pharmaceutical Co., Ltd.	Kangmei Poverty Alleviation Welfare Foundation
Kelti (China) Co., Ltd.	Culture Foundation set up at Taiwan headquarter
Resgreen Biological Engineering Group Co., Ltd.	Resgreen Charity Foundation
Mary Kay (China) Cosmetics Co., Ltd.	Mary Kay Female Entrepreneur Foundation, Mary Kay Gratitude Welfare
Nanjing Joymai Science & Technology Co., Ltd.	JMDH Charity Foundation
Oriflamme Cosmetics (China) Co., Ltd.	World Children Fund
Nu Skin (China) Daily-Use & Health Products Co., Ltd.	Nu Skin Force for Good Foundation, Nu Skin Cardiac Children's Foundation Taiwan
Yofoto Health Industry Co., Ltd.	Yofoto Charity Foundation
Sanzhu Fuer Pharmaceutical Co., Ltd.	Sanzhu Happiness Foundation
Shandong Anran Nanometer Industrial Development Co., Ltd.	Anran Nanometer Love 1+1+1 Foundation
Shenzhen Vigor Technology Co., Ltd.	Vigor Power of Love Foundation
Synsun Health Industry Co., Ltd.	Synsun TCM Technology Industrialization Foundation
Tianjin Sunhope Health Product Co., Ltd.	Sunhope Public Welfare Foundation
Tianjin Tiens Biological Engineering Co., Ltd.	Tiens Love and Care Foundation
Perfect (China) Co., Ltd.	Perfect Harmony Charity Fund, Perfect Abundant Grace Charity Foundation, Perfect Love and Care Foundation
Infinitus (China) Co., Ltd.	Si Li Ji Ren Foundation
New Era Health Industry (Group) Co., Ltd.	Beijing Guozhen Charity Foundation
Avon (China) Co., Ltd.	Avon Foundation for Women
Note: Data in this form are obtained from public information and information of some direct selling	

companies cannot be listed here due to space limit.

Seventh, Chinese direct selling enterprises are growing into a significant force driving the going out of consumption product manufacturing industry. Direct selling was introduced into China in 1990s under the leadership of multi-national companies. However, since 2005 domestic direct selling companies have grown fast and have overtaken foreign-invested companies in terms of company quantity and have been narrowing the gap in sales performance with multinational companies with average growing rate higher than foreign-invested companies. It needs to be noted that domestic direct selling companies have extended their footprint to worldwide. As an early bird going out overseas in last century, Tiens has business footprint in over 100 countries around the globe. Statistics show that over 20 domestic direct selling companies have oversea business, some not only engaging in trading business but also manufacturing at the foreign country, for instance, New Era is committed to CTM-based health food production at its plants in East Asia. Although the scale of Chinese direct selling companies' going out is not big, they are building production strength outside China step by step.

III. Direct Sellers' Contribution to Employment

Contribution to employment has been a distinct feature of direct selling industry and direct sellers are a typical representative group of the industry. A direct seller enters into contract with a direct selling company and then sell product and receive payment, the process of which is totally personal action without government involvement. A large number of direct sellers accumulated capital in this way and build their own businesses. Therefore, we made in-depth survey on this aspect.

Direct sellers are the main industrial personnel of the industry. In order to accurately analyze the current employment state of the industry, Research Center for Direct Selling at Peking University conducted questionnaire survey on direct sellers nationwide and obtained 1,593 effective samples. The survey studied the employment state mainly from direct sellers' basic information, employment state before engaging in direct selling, current employment state, income and spending state, labor relations, social insurance state and social relations state and so on.

Direct selling industry offers more job opportunities for female. 72% direct sellers in China are female, so the industry has a remarkable significance to female employment. There are companies only recruit female direct seller, offering quite valuable opportunity for women.

In terms of age structure, two thirds fall into the group of 31 to 50 years old. There are one third of direct sellers having diploma above junior college, over 60% of them have more than 2 years of experience in direct selling, 63% said that they are full time seller. Millions of direct sellers take direct selling as their major way to earn living and nearly one third have worked in the industry for more than five years.

Direct seller’s income is actually not as high as imagined. Among our sample direct sellers, two thirds have a monthly income over RMB 2,000, but two thirds of them lower than RMB 4,000; 38% don’t have social insurance. Although there are only one third of sellers are satisfied with their income, 88% intend to work in the industry for a long term; most direct sellers acknowledge the significance of their job; 40% think the feature of the job that attract them is the freedom in disposal of their own working time and nearly half of the sellers say that their working hours far less than 40 hours a week, which shows that direct selling is an attractive job.

Direct seller is a group actively seeking for income opportunities. Although more than 50% of them are not satisfied with their income, 85% have very positive perception to the job, regarding it as a noble career and having sense of importance and feel happy which are the feeling and attitude they have when they think 50% of surrounding people don’t understand or feel offensive by their jobs. Nearly 90% of the sellers are satisfied with their work which is beyond our expectations despite we always know direct sellers are known for their positive attitude.

This is a typical non-formal employment population. These data can help us to understand the employment state of direct sellers more intuitively. Firstly, their income is not as what is rumored that they can get windfall profits; two thirds have a monthly income less than RMB 4,000 having no significant difference from the average level in the society. Secondly, nearly two-thirds are full-time sellers, a relatively high proportion of full-time, which is different from the international direct selling industry data. Thirdly, most of direct sellers intend to engage in the industry for a long term, so the team still has a certain extent of stability, which indicates that the rumored extremely high liquidity of the industry is not true. Fourthly, nearly 40% of direct sellers don’t have social insurance, so we can understand the significance of direct selling for the sellers to make a living. Fifthly, direct sellers have very positive views on their work, at least they are a typical group having very positive attitude which is the common feature of entrepreneurial people.

It is worth noting that there are a lot of direct sellers to start their own businesses after training and exercise in the direct selling industry. 23.6 % of direct sellers believe direct selling exercised their social skills, nearly 40% think that direct selling give them possibility to use their time freely and provide a good business creating climate for them. Among the direct sellers under our survey, 26.25% have started their own businesses and already have their own employees. Although 51% of these entrepreneurs have employees less than 3, we can see the direct selling company also play a role in incubation of small and micro enterprises.

IV. Public Impression to Direct Selling Industry

In order to study the urban public’s attitudes towards and understandings to direct selling industry, we commissioned HORIZEN to make questionnaires and sampling survey in 122 tier one, two, three and four cities such as Beijing, Shanghai, Guangzhou, Shenyang, Zhengzhou, Wuhan, Chengdu, Xi'an, Taiyuan and Nanning and received 2,327 effective samples evenly distributed among these cities. These data obtained are very useful for us to observe direct selling industry's social impact and social recognition to the industry.

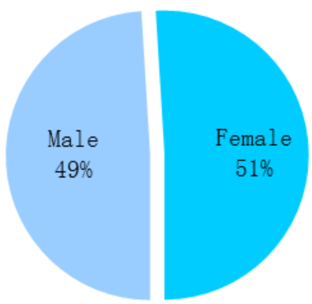
1. Basic Information of the Sampling Public

The basic status of sampling public basic covers gender, age composition, education structure and income.

1) Gender ratio is 1:1

In the questionnaires survey, the male/female ratio is 49%/51%, which generally kept the 1:1 gender ratio for the sampling.

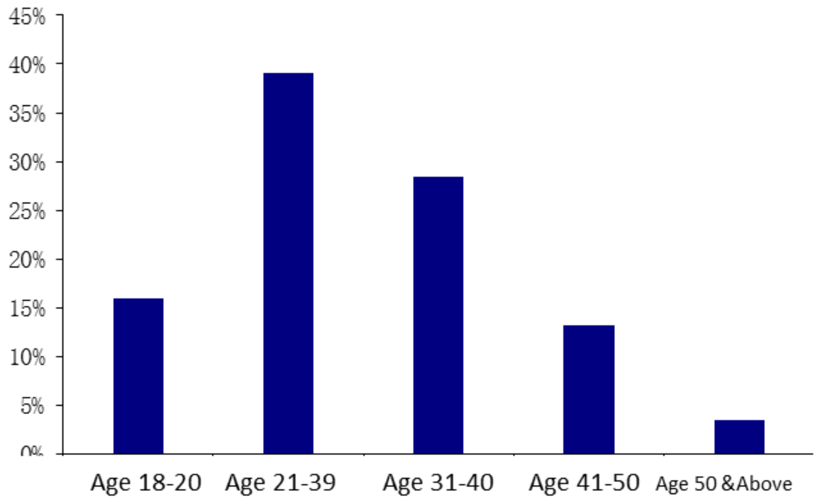
Figure 4-1 Gender Distribution of Sampling Public



2) Age ranging from 18 to 50 years old

The age of 96% of the sampling public falls into the range 18 to 50, the percentage of the age group of 18 to 20, 21 to 30, 31 to 40, and 41 to 50 is respectively 16%, 39%, 28% and 13%, relatively even in distribution. The age of the remained 4% of the sampling public is above 51 years old.

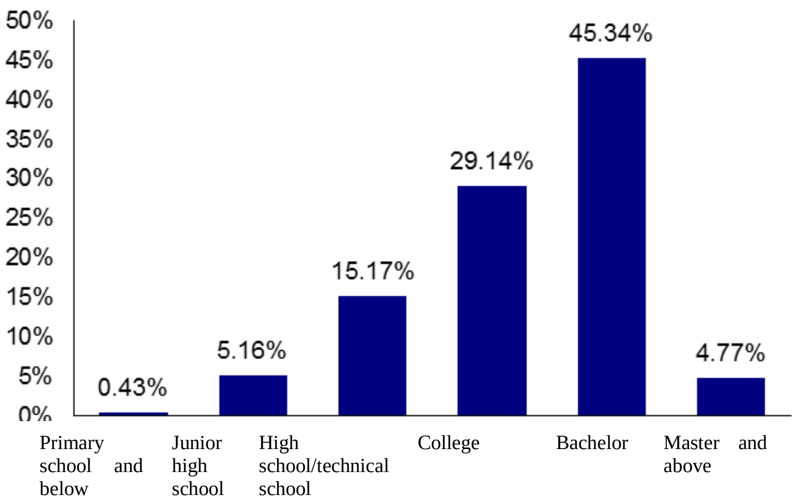
Figure 4-2 Age Distribution of the Sampling Public



3) Over 70% have junior college diploma and above

Over 70% of the sampling public have junior college and above diploma. The percentage of junior college, bachelor and mast and above degree is respectively 29%, 45%, 4.8%. The group has high consumption power and higher value for the survey.

Figure 4-3 Education Distribution of the Sampling Public

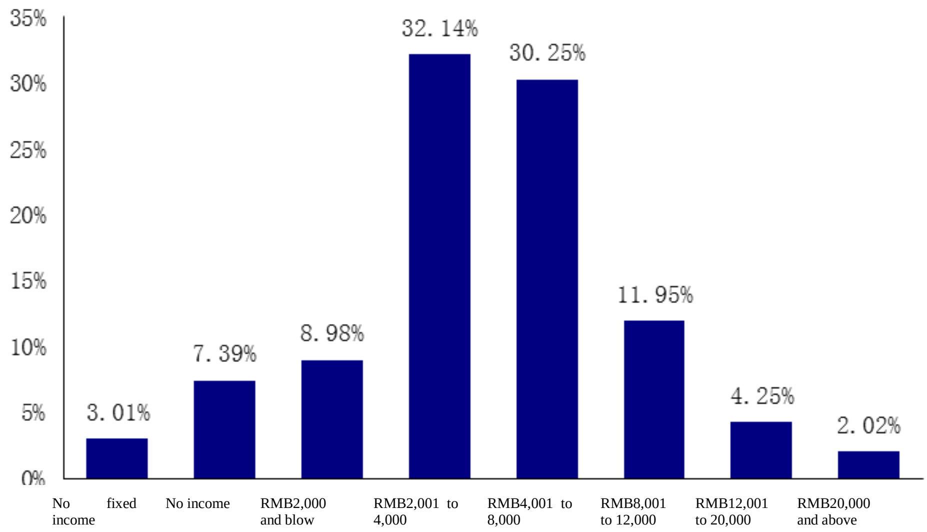


4) Monthly income mainly from RMB 2,000 to RMB 12,000

Monthly income of over 74% of the sampling public is in the range from RMB 2,000 to RMB 12,000 with 32%, 30% and 12% of them fall respectively into the income range of RMB 2,000 to 12,000, RMB 2,001 to 4,000, RMB 4,001 to 8,000 and RMB 8,001 to 12,000. There are 49% of the sampling public having a monthly income lower than RMB

2,000; 6% above RMB 12,000 and 10% having no income or fixed income.

Figure 4-4 Monthly Income State of the Sampling Public



2. Consumption Habit of the Sampling Public

In the Regulations on Administration of Direct Selling, direct selling products are classified into five categories including cosmetics (covering personal care products and hairdressing and beauty products), health food (food that has been certified with the Health Food Certification by related authority), cleaning supplies (personal sanitary products and home cleaning products), healthcare equipment and small kitchen ware. Therefore, our survey focuses on the public's consumption habits on health care and cosmetic products.

1) Health care products and cosmetics are purchased mainly from physical stores with not high rate through direct selling

Effective survey results show that when buying cosmetics, 50.8% of the public choose the most traditional way of purchasing i.e. from the store, 35.2% choose to buy online, only 4% choose to buy via direct sellers; in terms of purchase of health care products, 49.9% of the public choose the most traditional way i.e. from the store, 30.2% choose to buy online, only 9.8% choose to buy via direct sellers. It at least indicates that it has become normal for nearly 10% of urban public to purchase health food or cosmetics via direct selling.

Figure 4-5 Means of Purchasing Cosmetics

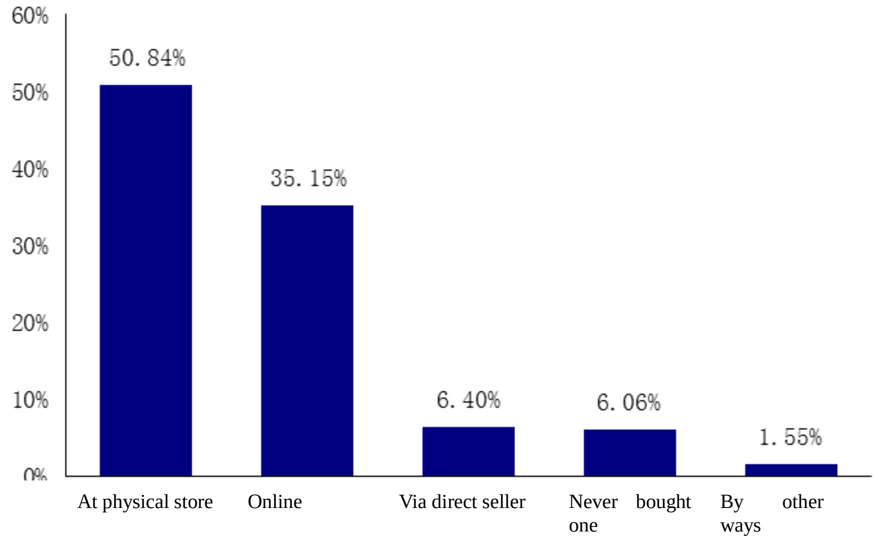
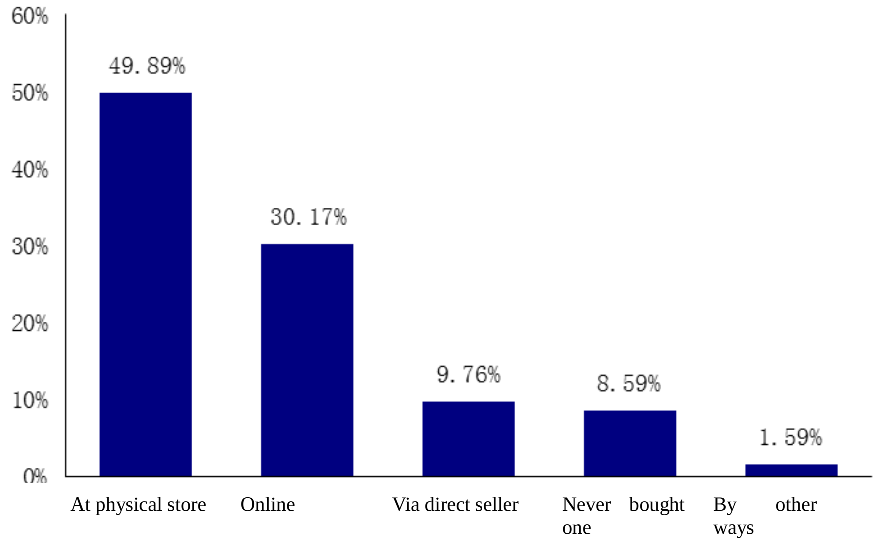


Figure 4-6 Means of Purchasing Health Care Products



2) Two thirds consumers have bought direct selling products

Based on our sample survey, two thirds of people have bought direct selling products. This ratio indicates that the permeability of direct selling companies in cities in China cannot be underestimated. However, considering the 10% normal purchase mentioned above, there is still a long way to go to culture normal purchase of direct selling products. In terms of specific product categories, the top one is health food, followed by cosmetics and cleaning supplies, small kitchen utensils and health care equipment.

Figure 4-7　Whether one has bought direct selling product?

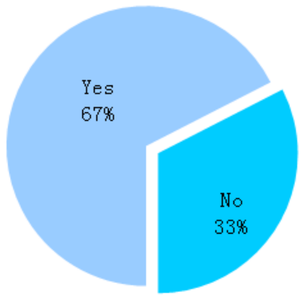
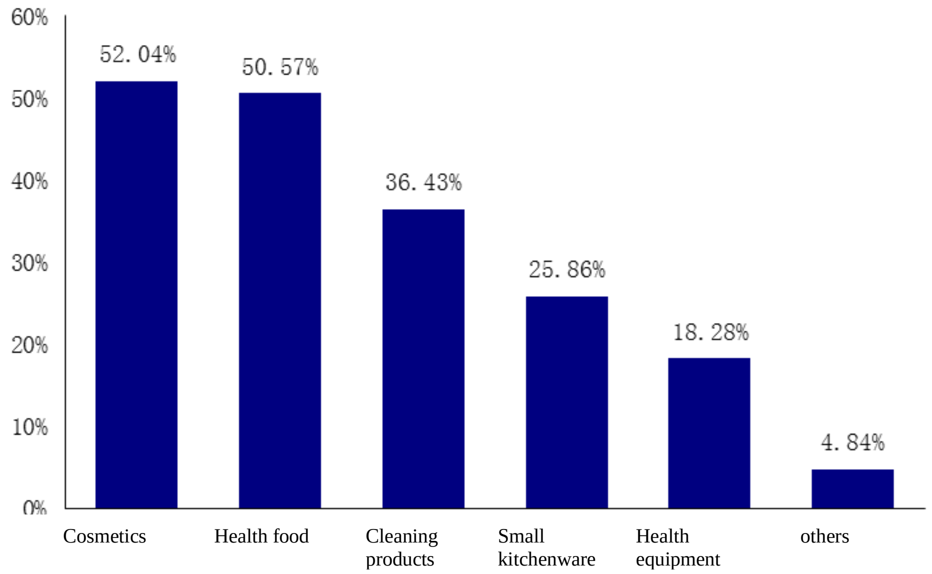


Figure 4-8　Category Distribution of Direct Selling Product Bought Before



3) Recognition of the Public to Direct Selling Product Quality

When selecting direct selling products, health food product or cosmetics, the first driver for the public's option is "quality assurance" and the second factor is "cheap price". The case shows that the public choose direct selling health care products highly because of driving of the quality and also the prices are acceptable. We note that the driving factor of "because of direct seller's promotion" is around 15%, indicating that the impact of direct sellers' promotion on product sales is not as important as commonly believed and it is the product's competitiveness that dominates.

Figure 4-9 Driving Factors for Choosing Direct Selling Health Care Products

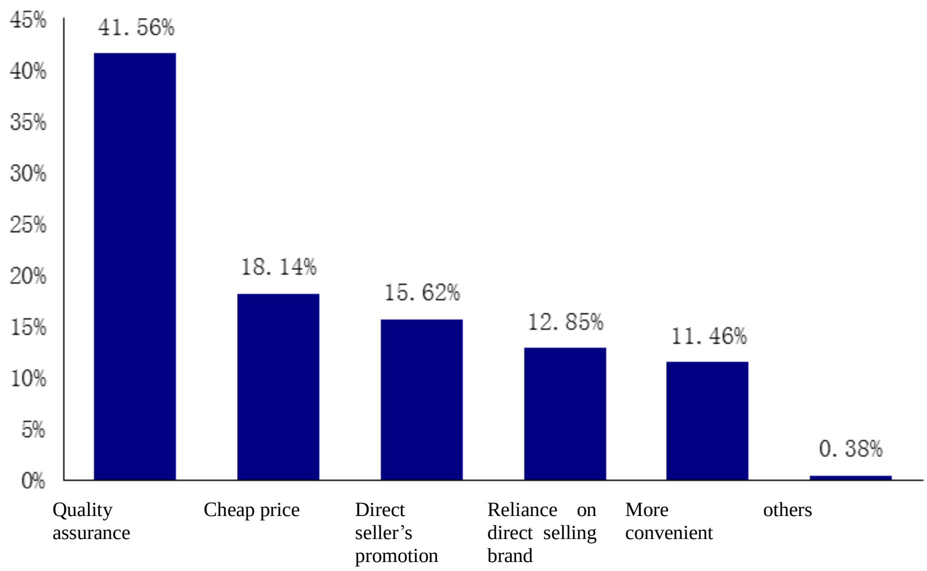
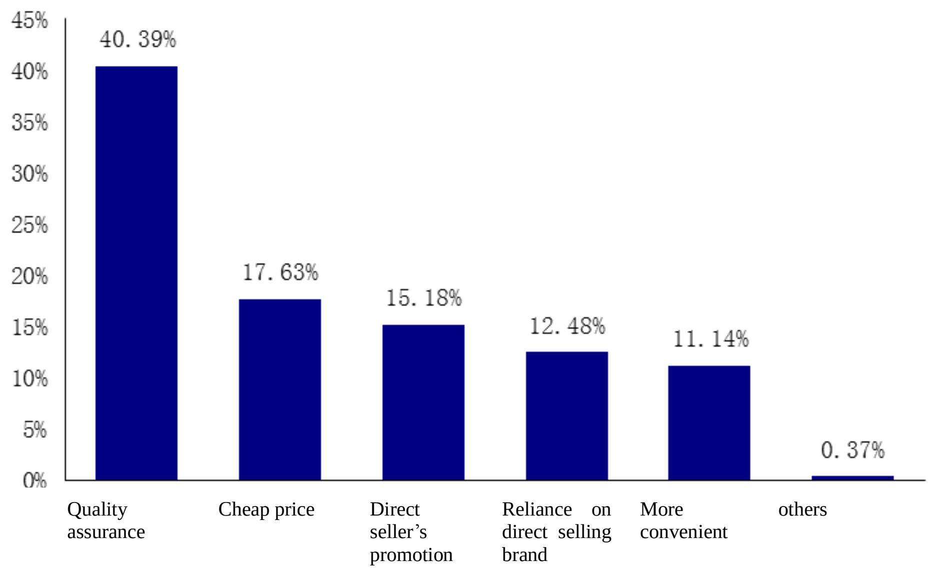


Figure 4-10 Driving Factors for Choosing Direct Selling Cosmetic Products

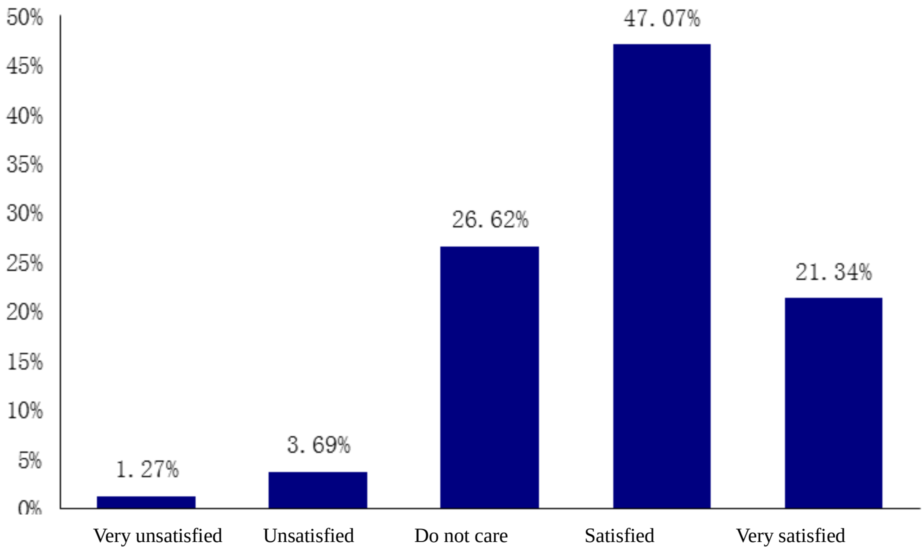


3. Consumption Satisfaction of the Public

Consumption satisfaction is a key factor affecting the public's consumption acknowledgement: higher consumption satisfaction brings better acknowledgement. According to the sample survey, the public has relatively high satisfaction towards direct selling products quality, price and service attitude of the sellers.

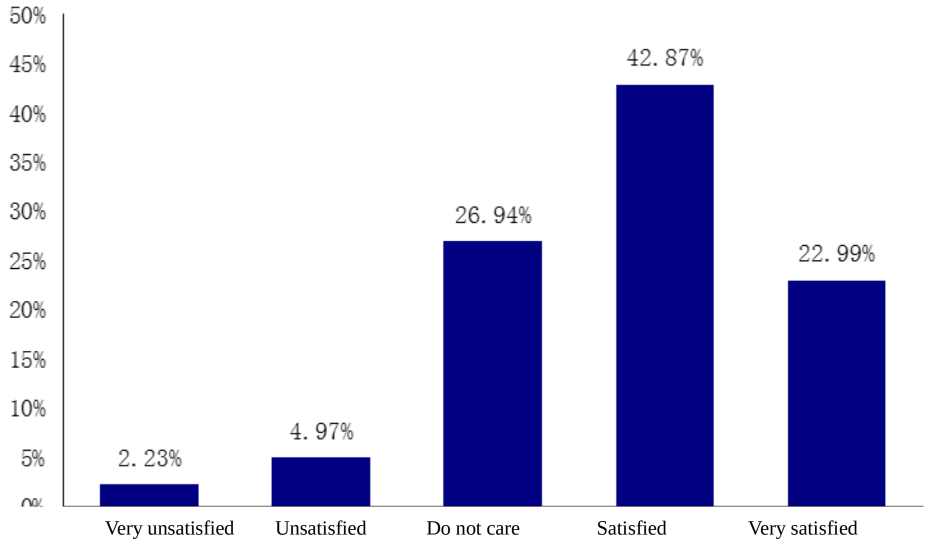
When talking about satisfaction extent towards product quality in a recent purchase experience of direct selling products, only 1.3% and 3.7% of interviewees are respectively highly dissatisfied and dissatisfied, dissatisfactory rate less than 6%. 26.6%, 47% and 21.3% of the interviewees are respectively not care, satisfied and highly satisfied.

Figure 4-11 Satisfaction Degree of the Public towards Quality of Direct Selling Products



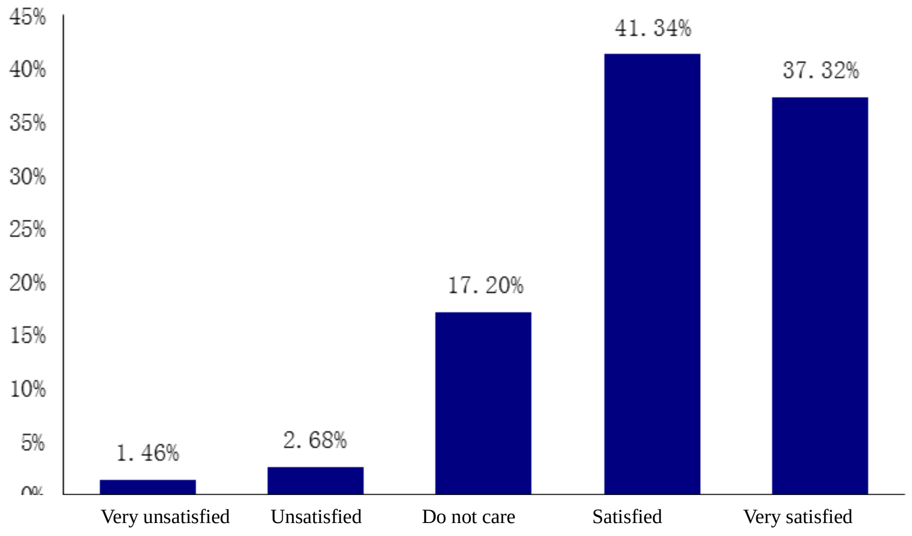
When talking about satisfaction degree towards product price in a recent purchase experience of direct selling products, only 2.2% and 5% of interviewees are respectively highly dissatisfied and dissatisfied, dissatisfactory rate less than 8%. 26.9%, 42.9% and 23% of the interviewees are respectively not care, satisfied and highly satisfied.

Figure 4-12　Satisfaction Degree of the Public towards Price of Direct Selling Products



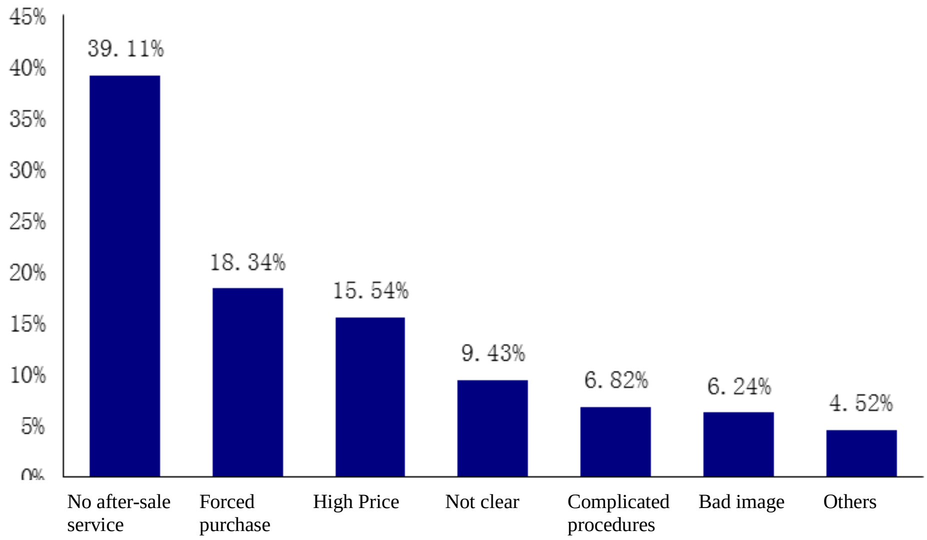
When it comes to satisfaction degree towards product price in a recent purchase experience of direct selling products, only 1.5% and 2.7% of interviewees are respectively highly dissatisfied and dissatisfied, dissatisfactory rate less than 5%. 17.2%, 41.3% and 37.3% of the interviewees are respectively not care, satisfied and highly satisfied.

Figure 4-13　Satisfaction Degree of the Public towards Service of Direct Sellers



Excluding the totally dissatisfied and those who do not care, the satisfaction rates for direct selling goods, pricing, and salesperson service are 68.41%, 65.86%, and 78.66% respectively. The rates seem to be a bit different and actually higher than expected. However, we believe the rates are trustworthy and reflective of the reality. They show how the general public see the direct selling industry. Though total dissatisfaction is not high, we have to pay attention to key elements that may lead to public dissatisfaction. The survey finds no after-sale service is the biggest concern that affects customer satisfaction (39%). The result lags far behind the claim made by direct selling companies on the service advantage for direct selling, which is also worth considering. In addition, attention should be paid to compulsory purchase and high price and other problems in direct selling responded by consumers.

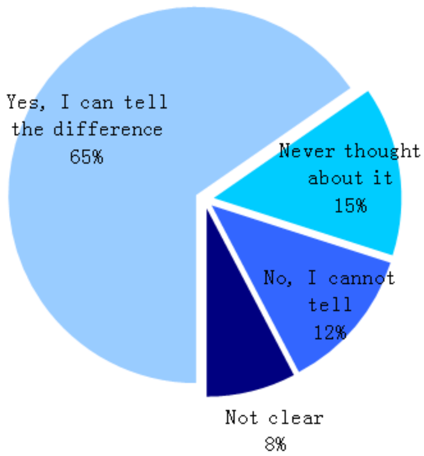
Figure 4-14 Dissatisfaction of the Public towards Direct Selling Mode



4. Public Recognition towards Direct Selling

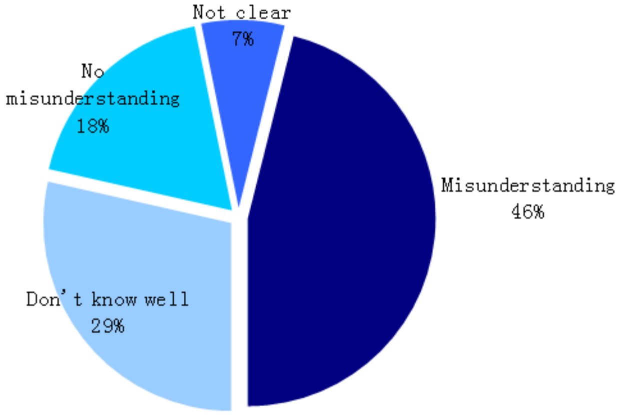
Due to historical development reason, people still don’t have clear understanding and definition on "Direct Selling" and "Pyramid Selling" and often confused. In recent years, the public image of direct selling industry has been under the focus of attention. Based on our findings in the survey, 65% of the public believe they can distinguish between direct sales and Pyramid Selling, still 35% is not able to distinguish the difference or give clear identification which is relatively high against the information developed era. Moreover, the gap of recognition toward direct selling between direct selling players and the public should be paid attention to.

Figure 4-15 Public Awareness towards Direct Selling and Pyramid Selling



When the question comes to whether the surrounding people has misunderstanding to direct selling model, only 18% of interviewees gave the negative answer but 46% gave the positive answer, and the remained 36% give the answer of “not sure” or “not clear”.

Figure 4-16 Misunderstanding of Surrounding People to Direct Selling



With regard to the legitimacy of direct selling, only 50% of interviewees know that

China has promulgated and implemented the Regulations on Administration of Direct Selling and 75% know the Regulations on Prohibition of Pyramid Selling. In summary, based on a couple of survey results stated in this sector, we can conclude that the public's recognition to direct selling model still needs to be improved.

Figure 4-17 Do you know the promulgation of Regulations on Administration of Direct Selling?

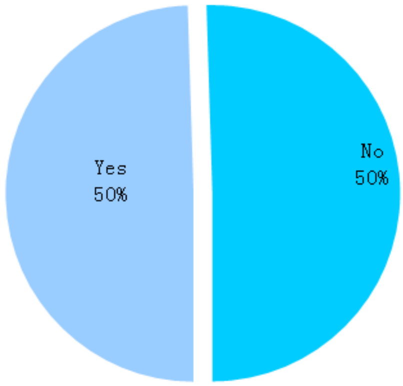
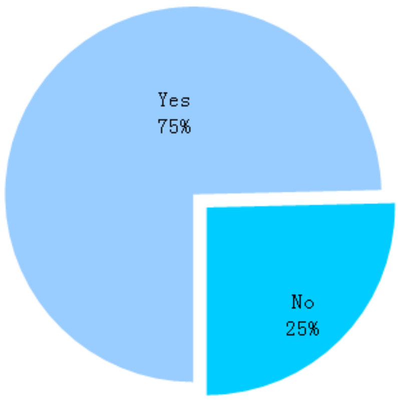


Figure 4-18 Do you know the promulgation of Regulations on Prohibition of Pyramid Selling?



V. Conclusion

Since the promulgation of *Regulations on Administration of Direct Selling* and *Regulations on Prohibition of Pyramid Selling* in September 2005, direct selling industry in China has gone through 10 years of development under the guidance of these regulations. It is commonly recognized by both insiders and outsiders of the industry that China's direct selling industry faces more stringent legal environment than other countries and regions. Under such an environment, China's direct selling industry still showed common characteristics and advantages of the world direct selling industry and made a lot of positive impact on China's economic and social development. Direct selling industry demonstrated very positive influence on job creation, promoting consumption, stimulating investment, promoting public welfare and incubation of small and micro enterprises and other aspects. Perhaps we can say that although the direct selling industry is not large in size and its economic impact is limited, but its special positive social influence on promoting employment well followed the advocating entrepreneurship and innovation by the general public and its power of promoting consumption well responded to the economic development trend of driving domestic consumption. At the same time, it is out of our expectation that the public has high satisfaction towards direct selling. Although we should not just base on the satisfaction expect that direct selling has become a commercial mainstream, we can conclude that the positive power of direct selling industry is receiving more and more recognition in the society.

We want to point out that, without an industrial association for the direct selling business, an industry survey done only by academic institutions is a very hard work and a thankless job. We’d like to express our gratitude to HORIZEN’s strong support and their professionalism help reduce our mistakes. Unfortunately, there are still many interviewees were not cooperative, including some licensed direct selling companies, which to certain extent affects our data quality as well as the objectivity of the evaluation we made based on the data. At the same time, we would like to thank all the support of the companies, direct sellers and the public accepted our interviews, and they make it possible for us to fully understand the direct selling industry from the perspective of survey data.

This report is mainly based on the direct selling companies survey, direct seller survey and public survey conducted by Research Center for Direct Selling at Peking University and with reference to the *2014 Corporate Social Responsibility Report of China Direct Selling Industry* released by the Center. Statistics quoted by the report are as of late Oct 2015.

Thanks go to the Direct Selling Education Foundation under the World Federation of Direct Selling Associations for its great support. Many thanks to distributors who have been surveyed and shared their frank views with us, and whose support are instrumental in completing the project.

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