

QUANTITATIVE ECONOMICS
& STATISTICS

The Social and Economic Contributions from Direct Selling - Insight from South Korea

2004 Socio-Economic Contribution Study
May 2005



*World Federation of
Direct Selling Associations*



ERNST & YOUNG
Quality In Everything We Do



Executive Summary

Direct selling in South Korea provides significant economic and social contributions to South Korean families and to the country as a whole. This report highlights the many contributions of the direct selling industry to South Korea, based on two new surveys, one of direct selling companies and a second of individual direct sellers. This report was commissioned jointly by the Korea Direct Selling Association (KDSA) and the World Federation of Direct Selling Associations (WFDSA).

Direct selling is a unique and often misunderstood business. While the concept of non-store retailing itself is quite common (e.g., catalogs, TV or radio sales, telemarketing, or Internet sales), direct selling is unique because it offers a personalized retail experience. Consumers benefit from product demonstrations, trials and customized service, which are often not available through alternative retail channels. Direct selling provides convenience, quality, and value for money. Direct sellers are drawn to the industry because it allows them to own their own business and provides them the opportunity of self-employment with modest startup costs and minimal risk. Direct selling also provides schedule flexibility for those who are not able to work full-time or with fixed hours. Direct selling offers an alternative income source for South Korean households.

The South Korean Direct Selling Industry

Direct selling maintains a significant place in South Korean society. It is a large, growing and unique industry. There is a wide of range of product offerings touching many aspects of South Korean life.

The South Korean direct selling industry is divided into two categories. Door-to-door sales companies are those where the direct seller only earns compensation based on his or her sales. Multi-level marketing companies allow direct sellers to earn compensation based on their sales and those of their recruits.

The KDSA consists of 59 companies. There were 21,854 South Korean direct selling companies in 2003. However, most of these are individual sellers or very small businesses in the Door-to-door sales category. These “companies” are easy to establish with little capital: in practice, there is little to distinguish them from a direct seller working with multi-level marketing company. The 35 multi-level marketing companies accounted for 82% of the multi-level marketing revenues in 2003. Similar data is not available for the door-to-door sales member companies of KDSA.

The total sales revenue in the direct selling industry was 7.9 trillion won in 2003. Unless stated otherwise all currency in this report are stated in South Korean Won (won). Currency amounts follow the short usage scale and therefore billions correspond to 10^9 and trillions to 10^{12} . The exchange rate as of April 2005 was 1 won = US\$0.00098 or 1US\$ = 1,017 won.

The industry includes a number of global companies with household names, such as Amway, Avon, and Mary Kay. There are also a number of South Korea-based companies, including Woongjin, Kyowon Group, Coreana Cosmetics, and Korea Cosmetics. The direct selling industry accounts for 5.5 percent of total retail sales in South Korea (Figure II.1). As of 2003, there were over 4.5 million¹ South Koreans associated with the direct selling industry: 1.6 million of these were direct sellers who received compensation (commission, overrides or bonuses) from direct selling companies (Table II.2).

Direct selling is a growing industry in South Korea. Sales have more than doubled over the past three years, from 3.5 trillion won in 2000 to 7.9 trillion won in 2003 (Figure II.2). The number of people associated with direct selling has also more than doubled, from 2.0 million in 2000 to over 4.5 million in 2003 (Table II.3).

Direct selling offers a wide variety of products, ranging from food to services. In the South Korean direct selling industry, the largest categories of product sales are personal care products (2,613 billion won of sales), health products (1,633 billion won) and household products (1,480 billion won) (Table II.4).

Almost two-thirds of direct sellers are women: most are married with three or more people in the household. Many married couples do direct selling together. The demographics of the industry are family-oriented, and demonstrate its uniqueness in providing entrepreneurial opportunities for women that might not be available to them otherwise (Table II.5). This leads to improved earning power and quality of life for South Korean families.

Economic Contributions of the Direct Selling Industry in South Korea

Direct selling contributes significantly to the South Korean economy both financially and in terms of quality of life. The average annual compensation of self-employed direct sellers in 2003 was 867,000 won; the average earnings of employees of direct selling organizations were 22,680,000 won. These earnings, while important, represent only a portion of the economic and social contributions the industry makes to the South Korean economy.

Beside salaries paid to employees and the compensation of direct sellers, personal income is generated as spending by those agents propagates through the economy. Direct selling companies also make capital investments, fund research and development spending, and pay taxes.

As described above, there were over 4.5 million South Koreans associated with the direct selling industry in 2003 – of these 1.6 million were direct sellers that received compensation and 19,400 were permanent employees of the direct selling companies. They earned an estimated 1,850 billion won in wages and salaries and other compensation from the direct selling industry. These are both considered direct economic impacts of the direct selling industry (Table III.1).

¹ This number represents the number of direct sellers associated with Multi-level Marketing companies only. The number of salespeople associated with Door-to-Door companies is unavailable.

The direct selling industry contributes to South Korean employment in two additional ways. First, the industry buys products and services from other South Korean companies (suppliers), supporting additional South Korean jobs. This first effect is referred to as the “indirect employment contribution”. Second, the income earned by the direct sellers and employees of the direct selling industry and its suppliers becomes personal income, part of which is spent in their role as consumers. These activities support additional jobs in the retail and other sectors such as the housing, medical, entertainment, and service sectors. This second effect is referred to as the “induced employment contribution”.

Based on our analysis of the income multiplier for the South Korean direct selling industry, Ernst & Young estimates that an additional 2,034 billion won in South Korean personal income was created through the indirect and induced income impact (Figure ES.1).

Figure ES.1: Total Personal Income Contribution of the South Korea Direct Selling Industry, 2003 (won in billions)

Total personal income impact:	₩ 3,884	
Total indirect & induced impact: ₩ 2,034	₩ 863	Induced economic activity: Personal income resulting from increased personal consumption expenditures by direct sellers, direct selling company employees, and supplier company employees
	₩ 1,171	Indirect economic activity: Personal income due to purchases from suppliers to the direct selling industry
	₩ 1,850	Direct economic activity: Personal income resulting from the operations of the direct selling companies. The direct personal income impact includes compensation to employees and direct sellers, including wages and salaries, commissions, bonuses, fringe benefits, and employer contributions for social insurance.

Fiscal Contributions of the Direct Selling Industry in South Korea

The direct selling industry's contributions to jobs, income, investment and research and development also result in increased tax collections for the South Korean government. The economic activity generated by the direct selling companies resulted in an estimated 1,457 billion won in total national and local taxes to the South Korean government in 2003 (Table III.2).

Social Contributions of the Direct Selling Industry to South Korea

While economic contributions are more easily measured, the industry also contributes considerably to the quality of life enjoyed by many South Koreans. The survey of direct sellers sheds light on the social contributions of the industry. Possibilities for entrepreneurship, work schedule flexibility, and opportunities to develop personal business skills are some of the major benefits cited by direct sellers. These social contributions are no less important than the economic contributions discussed above.

Benefits of Direct Selling to Direct Sellers

Development of Entrepreneurship

Direct sellers have opportunities to develop their own business, fostering an environment of entrepreneurship. They own their own small business, while benefiting from the assistance of larger, more established direct selling companies. Of those responding to the survey, 68 percent cited the ability to "Own my own business" as a benefit (Figure IV.5).

Development of Flexible Business Opportunities

The flexible nature of direct selling provides expanded business opportunities for many individuals. Fifty percent of direct sellers report working less than 20 hours per week, and 26 percent work less than 10 hours. This opens up supplemental income opportunities for many people who are not able to work full-time or cannot commit to a fixed work schedule (Figure IV.4). Sixty-three percent of direct sellers are women; 79 percent have three or more persons in the household. Three percent of survey respondents have a disability, but are able to work in the direct selling industry (Table II.5).

Development of Increased Personal Business Skills

Most direct sellers indicated that direct selling improved their professional skills. Eighty-five percent of direct sellers cited "Better organizing my agenda" as a benefit; 84 percent cited "Building better management skills." These skills are important in both their personal and professional lives. These direct sellers are role models for their children, friends and neighbors (Table IV.2).

Satisfaction of Direct Sellers

With these benefits, it's not surprising that direct sellers indicated they are generally pleased with their experience in the industry. Eighty-one percent described themselves as either "somewhat satisfied" or "very satisfied." with direct selling activities (Figure IV.7).

Benefits of Direct Selling to Consumers and Society

Serving Hard to Reach Consumers

Not all consumers are able to find what they need in their local stores nor do they have the benefit of non-store retail channels, such as the Internet. Direct selling increases access to retail markets in rural areas, generally underserved by traditional retail channels. Thirteen percent of direct selling consumers live in rural areas. Direct selling provides these consumers with access to additional goods they might not otherwise be able to find.

Contributions from Charitable Giving

Direct selling organizations gave an estimated 780 million won to charitable causes in 2003. When asked if they contribute any money, goods or services to social programs, 54 percent of respondents said they contributed to human services and charities, and 44 percent of respondents contributed to education (Figure IV.8).

Conclusion

The direct selling industry in South Korea is a growing, vibrant part of the South Korean economy and community. Its contributions to South Korean families and the South Korean economy are significant and important. While the economic contributions of jobs, personal income, investment, and taxes can be quantified, it is also important to recognize the social contributions that are made to individual families' lives and well-being. Increased self-esteem, self-confidence, organization and management skills will play a major role in building a stronger future for direct sellers, their families, their communities and their country. As one direct seller put it:

My company consists of housewives, thus a company of a unique nature. We have ethical and sound business operations...provide opportunities for women to engage in social activities...our associates and we, the company, grow & benefit together. Hence we are adding value.

Table of Contents

I. Introduction	1
Purpose and Scope of Study	1
The Direct Selling Industry.....	1
<i>Direct Selling Compared to In-store Retailing and Other Non-store Retailing</i>	2
<i>Compensation Structure of Direct Selling Organizations</i>	3
Report Structure	4
II. The South Korean Direct Selling Industry	5
Size of the Industry	5
Growth of the Industry	6
Breadth of the Industry	7
Demographics of the Industry.....	8
III. The Economic and Fiscal Contribution of the South Korea Direct Selling Industry	10
Direct Economic Contribution of Direct Selling Organizations.....	10
Suppliers (Indirect) and Employee Spending (Induced) Contributions.....	11
Contributions to the Government: Tax Revenue Collections	12
IV. The Social Contribution of the South Korea Direct Selling Industry	14
Work Experience of the Direct Sellers	14
Time Devoted to Direct Selling	16
Direct Selling Approaches	16
Benefits of Direct Selling to Direct Sellers.....	17
<i>Development of Entrepreneurship</i>	17
<i>Development of Increased Personal Skills</i>	18
<i>Financial Benefits</i>	18
<i>Satisfaction of Direct Sellers</i>	19
<i>Testimonials of Direct Sellers</i>	19
Social Benefits of Direct Selling to Society	20
<i>Contributions from Charitable Giving</i>	20
<i>Direct Selling Attracts Hard to Reach Consumers</i>	20
Conclusion	21
Appendix A: World Federation of Direct Selling Associations.....	22
Appendix B: Survey of Direct Selling Organizations.....	24
Appendix C: Survey of Direct Sellers	30
Appendix D: Technical Appendix	36
Sampling Methodology for Selection of Direct Sellers.....	36
<i>Allocation</i>	36
<i>Sample Selection</i>	36
<i>Weighting Methodology</i>	36
Economic Impact Methodology.....	37
Appendix E: Sampling Instructions.....	38

List of Figures and Tables

Figure I.1: Components of Non-store Retailing 3
Figure II.1: Direct Selling Share of Retail Sales 5
Table II.1: Direct Sales Penetration Rates - Asia, 2003 6
Table II.2: South Korea Population and Employment Data, 2003 6
Figure II.2: South Korea Direct Selling Industry Revenue Growth 7
Table II.3: South Korea Direct Selling Sales Force Growth, 1998-2003 7
Table II.4: Direct Selling Product Categories and Associated Revenues 8
Table II.5: Characteristics of Direct Sellers 9
Figure III.1: Total Personal Income Contribution of the South Korea Direct Selling Industry, 2003 ... 11
Table III.1: Economic Contributions of Direct Selling 12
Table III.2: Taxes Generated by the Direct Selling Industry 12
Table III.3: Taxes Generated by the Direct Selling Industry 13
Figure IV.1: Reasons for Becoming a Direct Seller 14
Figure IV.2: Previous Work Status of Direct Sellers 15
Figure IV.3: Percentage of Retail Sales Used for Personal Consumption 15
Figure IV.4: Time Devoted to Direct Selling 16
Table IV.1: Direct Selling Approaches 17
Figure IV.5: Benefits of Being a Direct Seller 17
Table IV.2: Benefits of Being a Direct Seller: Improved Professional Skills 18
Table IV.3: Benefits of Being a Direct Seller: Benefits Carried Over 18
Figure IV.6: Financial Benefits of Being a Direct Seller 19
Figure IV.7: Satisfaction of Direct Sellers 19
Figure IV.8: Charitable Contributions to Social Programs 20

I. Introduction

Purpose and Scope of Study

Ernst & Young was commissioned jointly by the Korea Direct Selling Association (KDSA) and the World Federation of Direct Selling Associations (WFDSA) to conduct a study of the socio-economic impact of the direct selling industry in South Korea. The objective of this study is to present the direct and indirect social and economic impact of the South Korean direct selling industry. Regulatory and legal issues are outside the scope of the study.

This report estimates these social and economic impacts based on two new surveys, one of direct selling companies and a second of individual direct sellers. Of the 59 member companies of KDSA, 53 received a survey questionnaire. Some member companies were not included in this study because they had been in the business for less than a year or were a subsidiary of another KDSA member company. The questionnaire asked these 53 companies about matters such as sales, organization, investment, and charitable activity. Twenty one company surveys were returned for a 40 percent response rate.

A random sample of 3,020 direct sellers received questionnaires asking about their experiences as direct sellers and the impact the industry has made on their lives. The sample of direct sellers was chosen from companies in proportion to company revenues in the direct selling industry. There were 673 direct seller surveys completed and returned for a 23 percent response. Of these, 525 indicated they had conducted direct selling activities within the past two years. A more detailed discussion about the survey methodology can be found in Appendix D.

An economic model, based on South Korean input-output tables, was developed by Minnesota IMPLAN Group, Inc. to account for the complex economic interactions among producers, intermediate suppliers and consumers. The input-output relationships in the model identify how higher direct employment in the direct selling industry leads to higher indirect employment and output in supplier industries and additional induced economic activity from increased spending by consumers. The economic model estimates the combined nationwide economic impact (initial and multiplier effects) of direct selling activity in South Korea. *Unless stated otherwise, all currency in this report are reported in South Korean Won (won).* The exchange rate as of April 2005 was 1 won = US\$0.00098 or 1US\$ = 1,017 won.

As context for understanding the results, it is important to first understand the nature of the direct selling industry in general.

The Direct Selling Industry

Direct selling is a unique and often misunderstood business. While the concept of non-store retailing itself is quite common (e.g., catalogs, TV or radio sales, telemarketing, or Internet sales), direct selling is unique because it offers a personalized retail experience. Consumers benefit from product demonstrations, trials and customized service, often not available through alternative retail channels. Direct selling provides convenience, quality, and value for money.

Direct sellers are drawn to the industry because of the opportunity for self-employment with modest startup costs and minimal risk. Direct selling also provides work schedule flexibility for

those who are not able to work full-time or with fixed hours. Direct selling offers an alternative income source for South Korean households.

The direct selling industry in South Korea provides significant financial and non-financial contributions to households, the community and the country. Direct selling, although not as prominent as store retail selling or other non-store retail selling, plays an important role in the South Korean economy and society.

Direct Selling Compared to In-store Retailing and Other Non-store Retailing

WFDSA's code of conduct defines direct selling as:

the marketing of consumer products directly to consumers generally in their homes or the homes of others, at their workplace and other places away from permanent retail locations, usually through explanation or demonstration of the products by a Direct Seller.

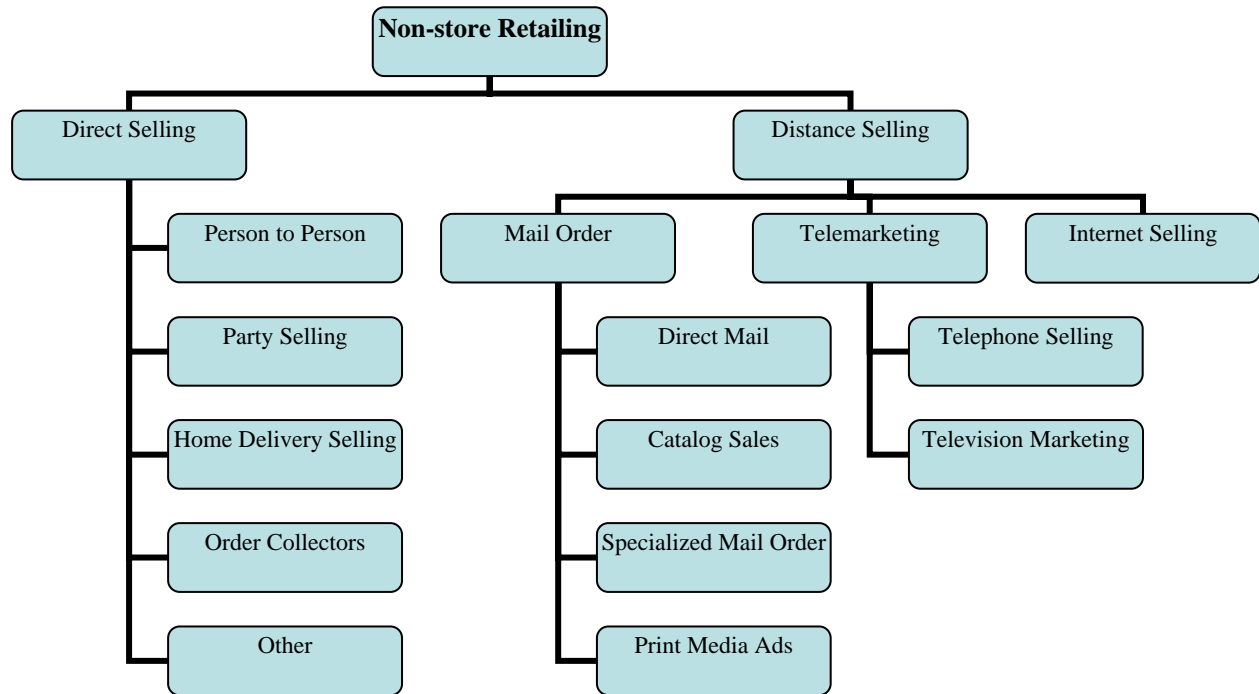
Direct selling is a part of “non-store retailing”, or retailing that take place outside of the traditional store environment. Direct selling is composed of independent direct sellers, who offer personalized interaction between customers and product representatives.

Unlike traditional in-store retailing, non-store retailing does not require a fixed retail location. Non-store retailing methods include catalogs, mail order, telemarketing, television marketing, and Internet sales. Each of these non-store retailing channels is defined by the method used to reach the consumer: telemarketing uses the telephone to contact potential customers, for example. Figure I.1 shows the most common types of non-store retailing and the modes by which they most frequently reach consumers.

Direct selling differs from other forms of non-store retailing by providing the consumer with personalized interaction with people who are knowledgeable about the products. This makes the purchase experience convenient and informative. Direct sellers use a variety of methods in order to connect with customers. These include person-to-person, party plan, and home delivery selling. The two most common methods use by direct sellers are:

- **Person-to-Person:** The direct seller demonstrates or explains the goods or services they wish to sell to the potential customer, often through a prior arrangement or introduction.
- **Party Plan:** A direct seller acts as a host/hostess and invites friends and family to a demonstration of goods or services. Alternatively, a customer serves as host/hostess and invites an outside direct seller to demonstrate the goods or services to their guests.

Figure I.1: Components of Non-store Retailing



Direct selling is similar to in-store retailing for the consumer because someone who understands the product is on hand to address consumer concerns. Direct sellers are able to spend more time demonstrating the product, and often have more knowledge than a store employee simply because they specialize in one particular product or product line. The major advantage of the person-to-person and party plan methods is that the direct seller is on hand to address customer questions.

Direct selling also differs from traditional retail stores and even most non-store retail channels in that the startup costs for the individual direct seller are low. New direct sellers can join the direct selling organization with minimal up-front investment, allowing them to grow their business based upon their own initiative.

Compensation Structure of Direct Selling Organizations

Direct selling organizations are generally organized into either a single or multi-level compensation model.

- Single-level organizations (“Door-to-Door” Sales) offer one of two sources of compensation to their direct sellers. The first is the markup between wholesale and retail prices; the second is commissions, paid directly to the direct seller. For the most part, the direct seller acts as a traditional retailer, buying the product at wholesale from the organization and selling it to the consumer at a retail price.
- Multi-level organizations (“Multi-level marketing” sales) offer direct sellers an additional method of compensation. Direct sellers still earn income through sales to their direct customers, as in a single-level organization. In addition, the direct seller earns

compensation based on the sales of other direct sellers they have introduced, trained, and supported in developing their business and on the sales of others recruited by their recruits down a number of levels. The direct seller is not compensated for the recruiting itself, but receives a share of the profit on sales of their down-line sales organization.

As described above, direct sellers are not employees of the direct selling organization – they don't receive traditional wages and salaries for their work. Rather they are self-employed, independent contractors whose compensation is based on the level of sales they achieve and related sales performance incentives.

Report Structure

This report estimates the economic and social contributions of the direct selling industry in South Korea based on the two surveys described above. An overview of the South Korean direct selling industry is provided in Section II, followed by estimations of the economic and fiscal contribution of this industry in Section III. Section IV discusses the important non-economic social contributions that the direct selling industry has on the South Korean population. The appendices contain information regarding data sources and methodological descriptions.

II. The South Korean Direct Selling Industry

Direct selling maintains a significant place in South Korean society. It is a large, growing and unique industry with a wide of range of product offerings touching many aspects of South Korean life.

Size of the Industry

The South Korean direct selling industry is divided into two categories. Door-to-door sales companies are those where the direct seller only earns compensation based on his or her sales. Multi-level marketing companies allow direct sellers to earn compensation based on their sales and those of their recruits.

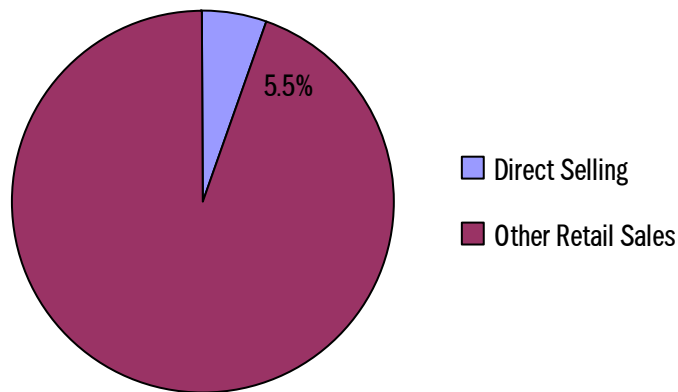
The KDSA consists of 59 companies. There were 21,854 South Korean direct selling companies in 2003. However, most of these are individual sellers or very small businesses in the Door-to-door sales category. These “companies” are easy to establish with little capital: in practice, there is little to distinguish them from a direct seller working with multi-level marketing company. The 35 multi-level marketing companies accounted for 82% of the multi-level marketing revenues in 2003. Similar data is not available for the door-to-door sales members of KDSA.

The industry includes a number of global companies with household names, such as Amway, Avon, and Mary Kay. There are also a number of South Korean-based companies, including Woongjin, Kyowon Group, Coreana Cosmetics, and Korea Cosmetics.

KDSA members account for 82 percent of total multilevel marketing direct selling revenues in South Korea. Companies responding to the survey have been in the direct selling business in South Korea for an average of 8.5 years. A list of KDSA members is provided in Appendix A.

Direct selling industry revenues in South Korea totaled 7.9 trillion won in 2003. With retail sales totaling 145 trillion won in South Korea, direct selling represents a 5.5 percent share of the total retail market (Figure II.1).

Figure II.1: Direct Selling Share of Retail Sales



Source: Direct Selling Revenues from KDSA, Total Retail Sales from Euromonitor.

Approximately, 4.5 million² South Koreans were associated with the direct selling industry as of 2003. In 2003, there was a sales penetration rate of 10.7 – there is one direct seller for every 10.7 people in South Korea. This is higher than some other countries in the region, as shown in Table II.1.

Table II.1: Direct Sales Penetration Rates - Asia, 2003
(thousands)

Country	Population	Direct Sellers	Penetration Rate
South Korea	47,900	4,460	10.7
Taiwan	22,605	3,818	5.9
Malaysia	24,530	3,000	8.2
Singapore	4,354	315	13.8
Thailand	64,860	4,000	16.2
Japan	127,620	2,000	63.8

Source: WFDSA and KDSA.

Of those associated with the direct selling industry, 1.6 million (36 percent) received a commission, bonus, or override during 2003. Table II.2 shows the size of the South Korea direct selling industry relative to the South Korean population as a whole.

Table II.2: South Korea Population and Employment Data, 2003
(thousands)

Category	Population
Total Population	47,900
Total Labor Force	22,916
Total Employed	22,139
Total Direct Sellers (MLM companies only)	4,460
Total Direct Sellers Receiving Compensation	1,608

Source: Population and Labor Force Data from National Statistical Office (NSO).
Direct Selling data from WFDSA and KDSA.

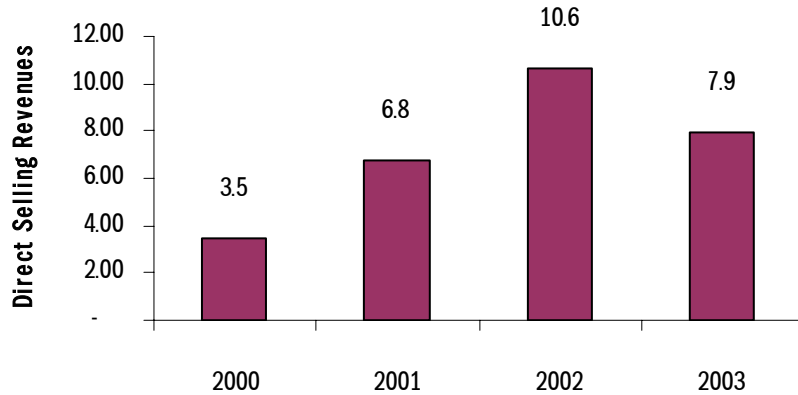
Growth of the Industry

Figure II.2 shows the recent growth trends in South Korean direct selling revenues. Growth in the past three years has been exceptional, from 3.5 trillion won in 2000 to 7.9 trillion won in 2003 – more than a 100 percent increase. The highest annual growth occurred between 2000 and 2001, with a 95 percent increase in one year. Direct selling in South Korea saw a decrease of almost 26 percent from 2002 to 2003. During this time, GDP growth in South Korea slowed from almost 10% in 2002 to 5.4% in 2003.³

² This number represents the number of direct sellers associated with Multi-level Marketing companies only. The number of salespeople associated with Door-to-Door companies is unavailable.

³ Percent year over year calculation based on International Monetary Fund (IMF), International Financial Statistics.

Figure II.2: South Korea Direct Selling Industry Revenue Growth
(won in trillions)



Source: KDSA.

The number of people associated with direct selling has also grown dramatically: it also more than doubled in the 4 year period from just over 2 million in 2000 to over 4.5 million in 2003. The highest annual growth rate was from 2001 to 2002, with a one-year jump of 70 percent. The number of direct sellers decreased by 14 percent between 2002 and 2003, as Table II.3 shows.

Table II.3: South Korea Direct Selling Sales Force Growth, 1998-2003
(thousands)

Year	Direct Sellers
2003	4,460
2002	5,200
2001	3,050
2000	2,015

Source: KDSA

Breadth of the Industry

Direct selling organizations sell a wide variety of consumer products and services. Table II.4 lists product categories and associated revenues. The industry reaches a wide consumer base with this variety of products, and so touches the lives of many different types of people.

Table II.4: Direct Selling Product Categories and Associated Revenues
(won in Billions)

Product Categories	Revenues	Percent of Revenues
Personal Care Products	2,613.2	32.9
Health Products	1,632.5	20.6
Household Products	1,480.3	18.6
Family Related Products	943.6	11.9
Food Products	612.0	7.7
Other	447.6	5.6
Service Products	208.7	2.6
Total	7,938.0	100.0

Source: Weighted responses from E&Y Survey of South Korean Direct Selling Companies, 2004

In the South Korean direct selling industry, the largest categories of product sales are personal care products (2,613 billion won of sales), health products (1,633 billion won) and household products (1,480 billion won).

Demographics of the Industry

An analysis of the demographics of direct sellers reveals the unique benefits offered by the industry. These benefits attract people who might not otherwise participate in the entrepreneurial activities associated with direct selling.

As shown in Table II.5, direct sellers are primarily female (63 percent). Most direct sellers are married (81 percent) with a higher concentration of married couples in direct selling than in the general populace (61 percent of the general South Korean population is married⁴). Many married couples tend to do direct selling together, and many use direct selling as a second source of income. Most have three or more people in the household. The industry has been successful in reaching out to women and families, who often strive for more flexible work arrangements.

Direct sellers are generally well educated, with 69 percent having a college degree or higher. They also tend to be concentrated in cities – 71 percent reported living in an urban area.

Direct selling offers substantial flexibility and independent business opportunities for those in the industry. It also allows labor force participation for segments of the population that might otherwise not be able to earn a living in more traditional industries. Direct selling is therefore a unique industry that contributes to improved quality of life, improved earning power, and more entrepreneurial opportunities for South Korean families.

⁴ South Korean National Statistical Office, *Population & Housing Census Report*.

Table II.5: Characteristics of Direct Sellers

Demographics	Category	Percent of Respondents
Gender	Male	37
	Female	63
Age	18 - 34	27
	35 - 49	57
	50 - 65	15
	> 65	1
Marital Status	Single, never married	16
	Married / Co-habitant	81
	Divorced/Widow	3
Total # in Household	Two or less	21
	Three	28
	Four	31
	Five	13
	Six or more	7
Area of living	Urban	71
	Suburban	21
	Rural	9
Education	Below high school	3
	High school graduate	28
	College degree	57
	Graduate degree, i.e., Masters, Ph.D.	10
	Professional degree, i.e., MBA, MD	2

Source: E&Y Survey of South Korean Direct Sellers, 2004

III. The Economic and Fiscal Contribution of the South Korea Direct Selling Industry

The direct selling industry provides wages and salaries to the employees of the direct selling companies plus compensation to its self-employed direct sellers. In addition, the direct selling industry's purchases of goods and services from other South Korean companies provide employment and income to the employees of those companies. Spending by the direct sellers and employees of the direct selling companies and their suppliers also generates employment, personal income and taxes in the South Korean economy.

The sources of all data in this section are:

- The Ernst & Young survey of direct selling organizations in South Korea (see Appendix B),
- The Directorate-General of Budget, Accounting, and Statistics in South Korea, and
- Ernst & Young economic modeling (see Appendix D).

Direct Economic Contribution of Direct Selling Organizations

In 2003, the direct selling industry employed an estimated 19,400 employees in direct selling organizations; it also paid compensation to 1.6 million direct sellers. Direct selling organizations had total revenue of 7.9 trillion won, as reported by the KDSA.

Direct selling organizations paid average annual direct seller compensation of 867,000 won. Since many of these direct sellers are working part-time, their direct selling compensation is an important supplement to the household's other income. In addition, direct selling organization's employees, involved in administration, production, logistics and research and development earned an estimated 455 billion won in 2003, for an average salary of 22,680,000 won.

Direct sellers, direct selling organizations and their employees earned an estimated 1,850 billion won in wages, salaries and other compensation from the direct selling industry. This includes the compensation noted above plus non-wage compensation (including fringe benefits, retained earnings and dividends from the direct selling industry). This amount is often called the "direct employment contribution."

Figure III.1: Total Personal Income Contribution of the South Korea Direct Selling Industry, 2003
(won in trillions)

Total personal income impact:	₩ 3,884	
Total indirect & induced impact: ₩ 2,034	₩ 863	Induced economic activity: Personal income resulting from increased personal consumption expenditures by direct sellers, direct selling company employees, and supplier company employees
	₩ 1,171	Indirect economic activity: Personal income due to purchases from suppliers to the direct selling industry
	₩ 1,850	Direct economic activity: Personal income resulting from the operations of the direct selling companies. The direct personal income impact includes compensation to employees and direct sellers, including wages and salaries, commissions, bonuses, fringe benefits, and employer contributions for social insurance.

Source: E&Y calculations

Suppliers (Indirect) and Employee Spending (Induced) Contributions

In addition to the direct contributions of the direct selling industry listed above, the direct selling industry contributes to South Korean employment in two ways. First, the industry buys products and services from other South Korean companies (suppliers), supporting additional South Korean jobs. This first effect is referred to as the “indirect employment contribution”. Second, the income earned by the direct selling industry, its suppliers, and their employees becomes personal income, part of which is spent in their role as consumers. These activities support additional jobs in the retail, housing, medical, entertainment, and service sectors, among others. This second effect is referred to as the “induced employment contribution.” Figure III.1 shows the combined impact of the direct, indirect, and induced employment contributions.

Direct selling companies create economic activity in non-direct selling companies, such as product manufacturers and advertising firms. The revenues of these industries that are generated by the activities of the direct selling industry are called the *indirect impact*.

People involved in direct selling and supporting industries purchase goods and services in the general economy with the salaries, compensation and profits they earn. The revenues generated by these purchases are called the *induced impact*.

The additional income from indirect and induced jobs results in an income *multiplier* of 2.1. Based on this multiplier, an estimated additional 2,034 trillion won in South Korean personal income was created through the indirect and induced income impact. This means that the total impact on income of the industry in South Korea is 3,884 trillion won.

Similarly, additional revenue from indirect and induced jobs results in a revenue *multiplier* of 2.4. So, while direct selling companies directly produce 7,938 trillion won in sales revenue their total impact on sales in the economy of South Korea is 18,871 trillion won.

As noted previously, an estimated 1.6 million direct sellers and 19,400 employees earned compensation in the direct selling industry. The purchases of direct selling organizations and the spending of their employees and direct sellers generated an additional 136,000 jobs. Thus, the total job generation attributable to the direct selling industry is 1,764,000.

The sum of the direct, indirect, and induced impacts is the total economic impact of the direct selling industry. These impacts are summarized in Table III.1.

Table III.1: Economic Contributions of Direct Selling
(won in trillions)

Personal Income	Direct Impact	1,849.7
	Indirect Impact	1,171.4
	Induced Impact	862.8
	<i>Total</i>	3,883.9
Employment	Direct Impact	1,627,578
	Indirect Impact	70,839
	Induced Impact	65,474
	<i>Total</i>	1,763,891
Sales	Direct Impact	7,938.0
	Indirect Impact	6,692.6
	Induced Impact	4,240.0
	<i>Total</i>	18,870.6

Source: E&Y calculations (See Appendix D for methodological details)

Contributions to the Government: Tax Revenue Collections

The direct selling industry's contributions to jobs, income, and investment result in increased tax collections for the South Korean government. As shown in Table III.2, the economic activity generated by the direct selling industry resulted in an estimated 1,457 trillion won in total national and local taxes in 2003.

Table III.2: Taxes Generated by the Direct Selling Industry
(won in trillions)

Type of Tax	Direct	Indirect and Induced	Total Taxes
Total Taxes	1,022.7	433.8	1,456.5

Source: E&Y calculations

The direct and indirect national tax revenues generated by the direct selling industry in 2003 are summarized in Table III.3. As shown, the main source of this revenue is business income and business taxes.

Table III.3: Taxes Generated by the Direct Selling Industry
(won in trillions)

Type of Tax	Taxes Collected
Value Added Tax (VAT)	570.2
Corporate Income Tax	257.9
Customs Duty	133.8
Individual Income Tax	125.2
Inhabitant Tax	55.7
Registration Tax	49.1
Other Tax	264.6
Total Taxes	1,456.5

Source: E&Y calculations

The direct selling industry contributes significantly to the South Korean economy through both direct and indirect channels. The direct contribution includes sales revenue of 7,938 trillion won, employment of 1,628,000, and generation of 1,023 trillion won in tax revenues. In addition, indirect and induced contributions through purchases of products and services from other South Korean companies and employee spending support an additional 136,000 South Korean jobs, 2,034 trillion won of personal income to South Korean families and economy, and 434 trillion won in tax revenues.

IV. The Social Contribution of the South Korea Direct Selling Industry

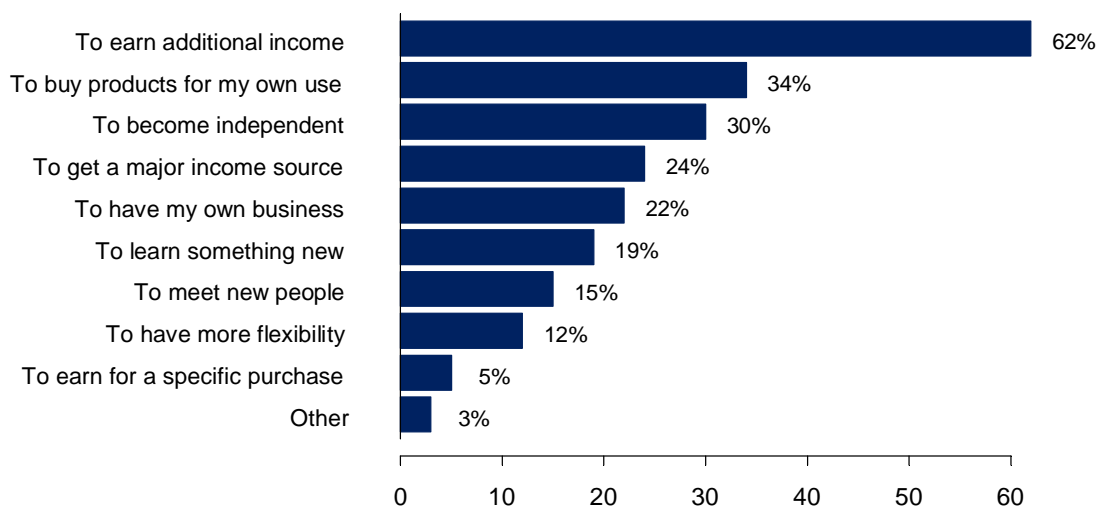
The direct selling industry makes a substantial financial contribution to the South Korean economy. While economic contributions are more easily measured, the industry also contributes considerably to the quality of life enjoyed by many South Korean. The survey of direct sellers (detailed in Appendix C) sheds light on the social contributions of the industry. These contributions include possibilities for entrepreneurship, work schedule flexibility, and opportunities to develop personal business skills. These contributions are no less important than the economic contributions discussed in previous sections.

In this section, the focus is on understanding the characteristics, motivations and experiences of individuals involved in direct selling, and the social contributions the direct selling industry makes.

Work Experience of the Direct Sellers

The two primary reasons given for becoming a direct seller are “to earn additional income” (62 percent) and “to buy products for my own use” (34 percent) (Figure IV.1). Many direct sellers join the profession simply as a means of earning extra income. An affinity for a product or product line draws them to work with a particular company, and direct selling gives them a chance to enjoy discounts on these products. All of this takes place without a prescribed commitment of time or money.

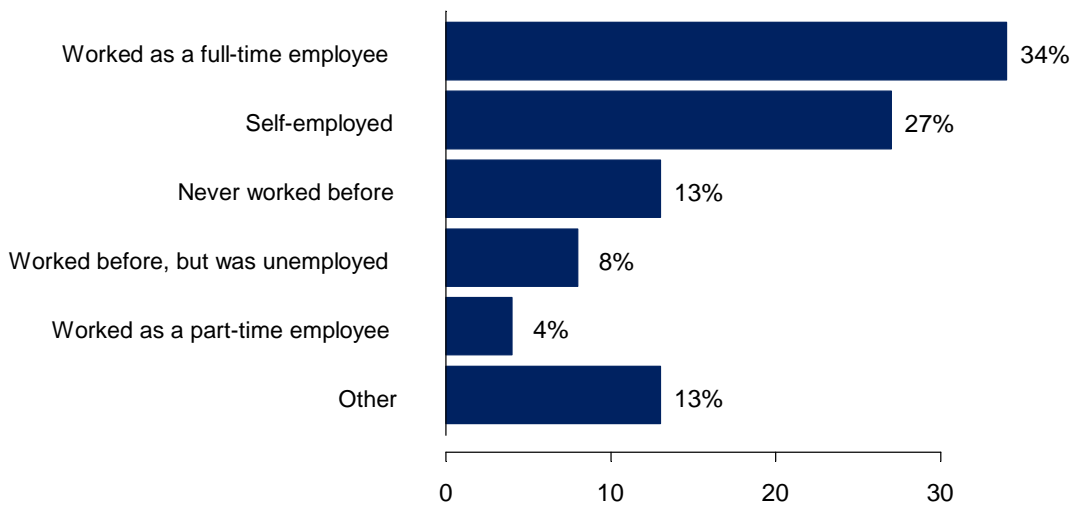
Figure IV.1: Reasons for Becoming a Direct Seller



Source: E&Y Survey of South Korean Direct Sellers, 2004

As shown in Figure IV.2, before joining the direct seller force, about one-third worked as a full-time employee; slightly more than one-quarter were self-employed. However, 21 percent had either never worked before or were unemployed prior to beginning direct selling. As one direct seller put it “*Korea is undergoing a prolonged economic slump. Given those circumstances, job creation through [direct selling] is important.*”

Figure IV.2: Previous Work Status of Direct Sellers

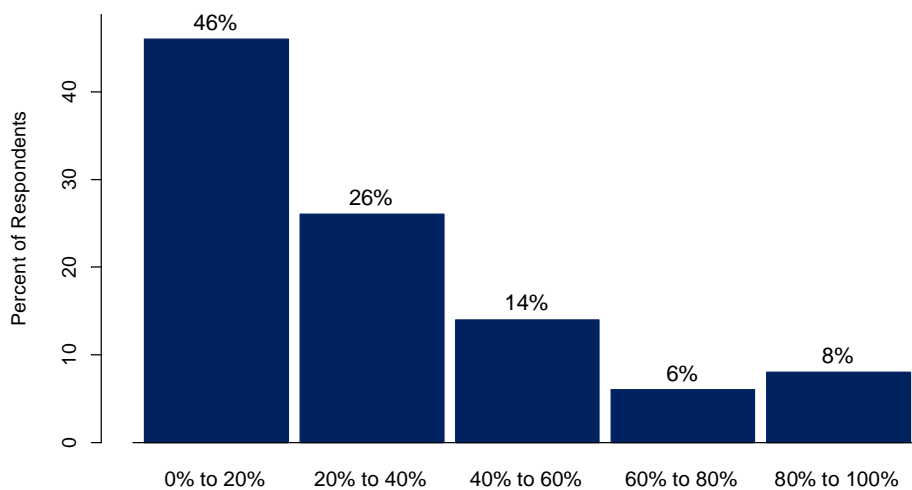


Source: E&Y Survey of South Korean Direct Sellers, 2004

Most direct sellers have received some form of training (94 percent). About 52 percent of the direct sellers received their training from the direct selling companies, and 37 percent of them received the training from their up-line direct sellers.

The great majority of direct sellers (89 percent) represented only one direct selling company during the past two years. Often, direct sellers work with companies from whom they purchase products for personal consumption. The survey respondents are very serious about direct selling as a business opportunity. Almost half (46 percent) of respondents reported retail sales for personal consumption of less than 20 percent (Figure IV.3). They achieve the majority of their sales to others, as opposed to buying things for themselves

Figure IV.3: Percentage of Retail Sales Used for Personal Consumption



Source: E&Y Survey of South Korean Direct Sellers, 2004

Though direct sellers may enter for the products and to earn extra money, the benefits they realize extend beyond these initial attractions.

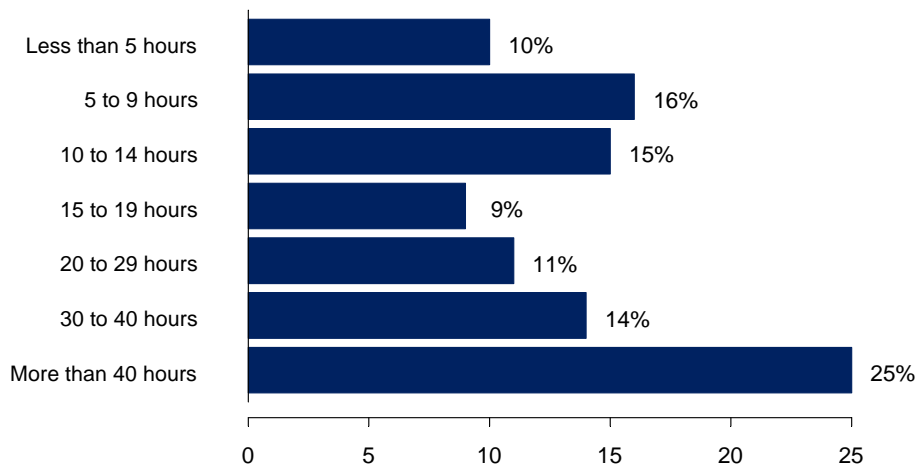
Time Devoted to Direct Selling

A unique feature of the direct selling industry is that it provides a flexible working schedule. The majority of direct sellers who responded (93 percent) work 12 months per year. However, the time devoted to direct selling varies widely. Though direct sellers work throughout the year, some work long hours each week, while others spend less time on a regular basis.

Many of our survey respondents regard direct selling as only a part-time activity. 50 percent of direct sellers report working less than 20 hours per week, and 26 percent work less than 10 hours. This opens up additional employment and supplemental income opportunities for many people who are not able to work full-time or cannot commit to a fixed work schedule.

However, direct selling can be an activity to which participants devote significant time. 25 percent of direct sellers work more than 40 hours per week (Figure IV.4). Independence is an important motivating factor for those who devote significant time to direct selling activities. Among those who work more than 40 hours a week, 83 percent cite “Own my own business” as a benefit of direct selling.

Figure IV.4: Time Devoted to Direct Selling



Source: E&Y Survey of South Korean Direct Sellers, 2004

Direct Selling Approaches

Direct sellers use various approaches to sell their products. Almost all direct sellers either sell directly to friends or use contacts provided by friends (98 percent, Table IV.1). Some use home parties, advertisements or simply knock on doors.

The Internet has a strong presence in South Korean direct selling, with about 66 percent of direct sellers indicating use of the Internet as a sales approach. Forty percent of these indicated that they used it often.

Table IV.1: Direct Selling Approaches

Approaches Used	Percent of Respondents
Friends	98
Contacts through other people	98
Telephone	92
Home parties	88
Advertisements, flyers	69
Internet	66
Knocking on doors	60

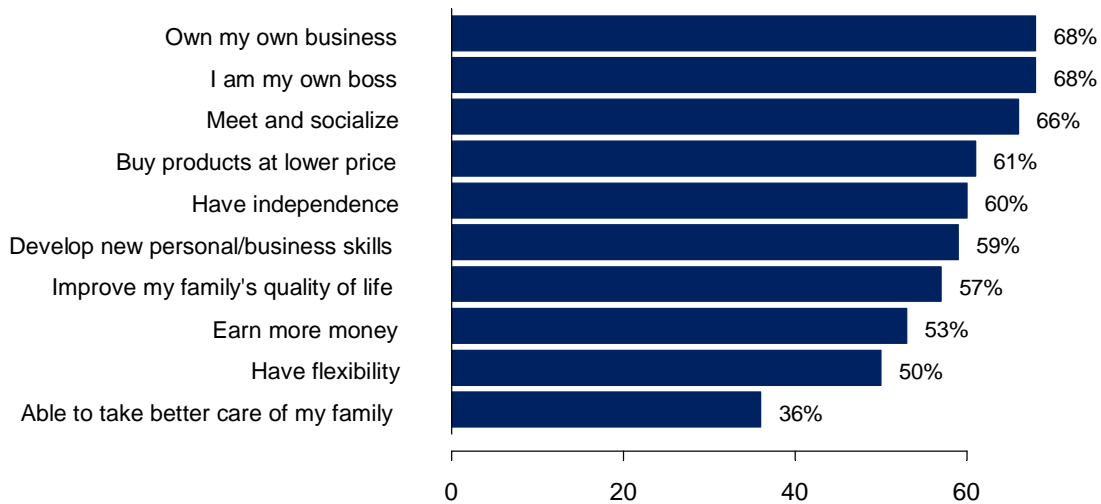
Source: E&Y Survey of South Korean Direct Sellers, 2004

Benefits of Direct Selling to Direct Sellers

Development of Entrepreneurship

Direct sellers have opportunities to develop their own business, fostering an environment of entrepreneurship. They own a small business, while still benefiting from the assistance of larger, more established direct selling companies. As shown in Figure IV.5, 68 percent cited both the ability to “Own my own business” and that “I am my own boss” as a benefit. Another 66 percent cited the ability to “Meet and socialize” as a benefit, underscoring the social nature of the profession. When asked to choose benefits, about 70 percent chose multiple benefits of direct selling.

Figure IV.5: Benefits of Being a Direct Seller



Source: E&Y Survey of South Korean Direct Sellers, 2004

As noted in Figure IV.5, 59 percent of respondents cited the development of new personal/business skills as a benefit of being a direct seller. Table IV.2 lists some of the specific skills that direct selling enhances. Direct sellers cited most of the skills listed as being improved by their experience. The skills are used in the direct selling industry and exported to their other

work experiences. These direct sellers can help serve as role models for their children, friends and neighbors.

Table IV.2: Benefits of Being a Direct Seller: Improved Professional Skills

Improved Professional Skills	Percent of Respondents
Better organize your agenda	85
Build business management skills	84
Build self esteem and confidence	82
Take more initiatives	82
Build better sales skills	80
Work better with others	75
Feel more at ease in front of an audience	74
Improve performance on other jobs	71

Source: E&Y Survey of South Korean Direct Sellers, 2004

Development of Increased Personal Skills

A significant number of survey respondents listed personal skills development that they attribute to their participation in direct selling. As shown in Table IV.2, 82 percent reported that they built self-esteem and confidence through their direct selling. Not only did direct sellers find their professional skills improved through direct selling, the effects also carried over to other parts of their lives.

As shown in Table IV.3, 91 percent of respondents indicated that the benefits carried over to their private lives, and 29 percent of respondents indicated the benefits carried over to another job.

Table IV.3: Benefits of Being a Direct Seller: Benefits Carried Over

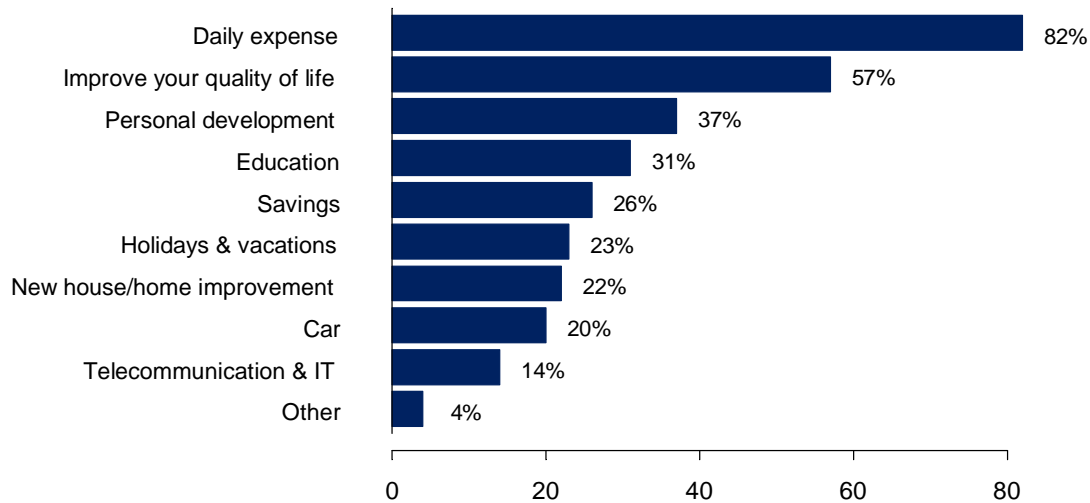
Benefits Carried Over	Percent of Respondents
In private life only	71
In another job only	9
In both private life and another job	20
Total	100

Source: E&Y Survey of South Korean Direct Sellers, 2004

Financial Benefits

How did direct selling activities benefit respondents financially? Direct sellers often indicated more than one benefit, but they most frequently said they used the money earned from their direct selling activities for daily expenses (82 percent) and to improve their quality of life (57 percent) (Figure IV.6).

Figure IV.6: Financial Benefits of Being a Direct Seller

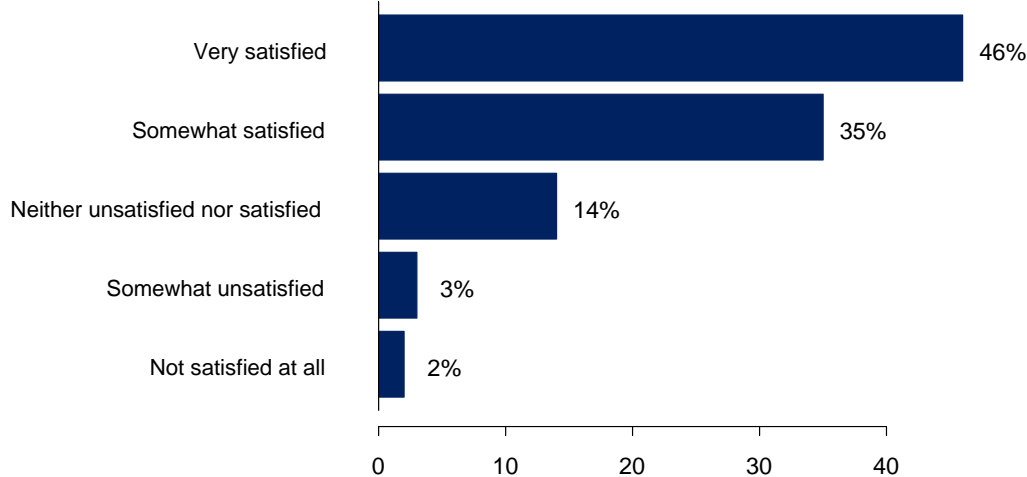


Source: E&Y Survey of South Korean Direct Sellers, 2004

Satisfaction of Direct Sellers

The direct sellers indicated they are generally pleased with their experience in the industry. Over 81 percent described themselves as either “very satisfied” or “somewhat satisfied.” – only five percent said they were not satisfied (Figure IV.7).

Figure IV.7: Satisfaction of Direct Sellers



Source: E&Y Survey of South Korean Direct Sellers, 2004

Testimonials of Direct Sellers

Here is a select sample of verbatim comments from direct sellers in response to the question “Please briefly describe one or two important things that have happened to you or your family OR that have helped others, as a result of being involved in direct selling.”

- *[Direct selling] also provides great benefits in terms of consumer protection through the organizing of mutual aid co-ops/associations.*

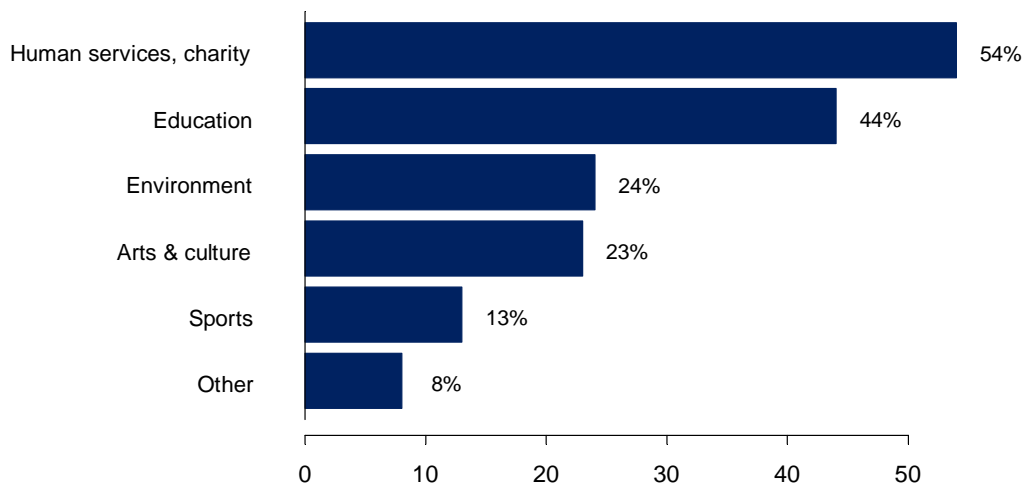
- *My company consists of housewives, thus a company of a unique nature. We have ethical and sound business operations, also provide opportunities for women to engage in social activities, and our associates and we, the company, grow & benefit together. Hence we are adding value.*
- *direct selling faces a stumbling block in that it is very difficult to turn around the mindset of most of the people who had a negative impression...as long as we see more direct selling companies like ours, which has transparent business management as well as a desirable business proposition...it will be so much quicker to turn around the mindset of the people.*

Social Benefits of Direct Selling to Society

Contributions from Charitable Giving

Direct selling organizations gave an estimated 780 million won to charitable causes in 2003. When asked if they contribute any money, goods or services to social programs, 54 percent of respondents said they contributed to human services and charities, and 44 percent of respondents contributed on education (Figure IV.8).

Figure IV.8: Charitable Contributions to Social Programs
(Multiple Responses Allowed)



Source: E&Y Survey of South Korean Direct Sellers, 2004

Direct Selling Attracts Hard to Reach Consumers

Not all consumers are able to find what they need in their local stores nor do they have the benefit of non-store retail channels, such as the Internet. Direct selling increases access to retail markets in rural areas, generally underserved by traditional retail channels. Of the survey respondents, 13 percent of their customers live in rural areas while nine percent of their customers are age 61 or older. Direct selling provides these consumers with access to additional goods they might not otherwise be able to find.

Conclusion

While the economic contributions of jobs, personal income, investment and taxes can be measured, it is also important to recognize the social contributions that are made to individual families' lives and well-being. The industry draws in segments of society that might not ordinarily participate in the entrepreneurial activities required of direct sellers. Families, and particularly women, benefit from the skills acquired and honed through participation in the industry.

The increased self-esteem, self-confidence, organization and management skills acquired through direct selling will play a major role in building a stronger future for direct sellers, their families, their communities and their country.

Appendix A: World Federation of Direct Selling Associations

The South Korea Direct Selling Association (KDSA) is the official direct selling association of South Korea and is a member of WFDSA. KDSA provided invaluable support and collaboration in conducting the research. The current members of the KDSA are:

21c For You	Korean Publishers
4 Life Korea CO. LTD	Kyowon Group
Agaworld Inc.	Lexus International
Albedo Co.Ltd	Lux Korea Ltd.
Altwell Co.,Ltd.	Management Association
Amc Korea Co., Ltd	Mary Kay Co., Ltd
Amway Korea Co., Ltd	Mbu Inc.
Avon Products Inc	Mco Digital
Bng People To Give The Happiness	MEDIPHARM Household& Healthcare
Chung Ho Electronics	N&C
Chungho Nice., Ltd	Namyang Aloe
Coreana Cosmetics Co.,Ltd	Neomier Korea Ltd.
Dynasty Korea	Nr Communication
Earth Spiruliva Group	Nse Korea Inc
Esb	Onejon Commerce Inc.
Ezenfree Co., Ltd	Premiere Korea Ltd.
Fissler Korea	Royal Queenclub Int
Flp Korea	Semo Co., Ltd
Glennoman Korea	Sinergy Worldwide Korea
Greenpia Cosmetic	Sunrider Korea Ltd
Han Il Yang Haeng Co. Ltd	Tae Young D&K
Hanbul Cosmetics Co., Ltd.	Tahitian Noni Korea
Harboursay Co., Ltd	Trio Co., Ltd
Herbalife Korea Co., Ltd.	Unicity Korea Ltd
Hwajin Cosmetics Co. Ltd	Usana Health Sciences Korea
I3shop CO., LTD	Wbg Korea
Kgc Sales Co Ltd	Well Being Tech
Korea Cosmetics Co., Ltd	Woongjin Coway Co., Ltd.
Korea Hanbaek International	Woongjin.Com Co.,Ltd
Korea Summit International	Yooshin Communications

The World Federation of Direct Selling Associations (WFDSA) also provided valuable assistance in preparing this study. They provided access to both direct selling organizations and

for the surveys used in this study. Founded in 1978, the WFDSA is a nongovernmental, voluntary organization representing the direct selling industry globally as a federation of national direct selling associations.

The WFDSA has a code of conduct that member companies adopt as a means of ensuring ethical behavior. It governs the actions:

1. of member companies toward each other,
2. of member companies toward direct sellers, and
3. of direct sellers to consumers.

The code addresses such areas as ethical recruiting of direct sellers (new direct sellers as well as those already working for other companies), fees and product inventory practices, and direct seller training. It also discusses fair presentation of products by sellers to consumers, and provides regulations on returning merchandise, discussion of competitors, and respect of privacy.

Enforcement of the code is primarily the responsibility of the member companies. Local DSA's are responsible for the handling of complaints against member companies, as well as ensuring that member companies are aware of the regulations of the code of conduct. The full code of contact is available for viewing at http://www.wfdsa.org/world_codes/code.asp.

Appendix B: Survey of Direct Selling Organizations

2004 WFDSA Direct Selling Company Survey in _____

Unless otherwise specified, please report the direct selling operations and sales activities in your company in (country) only. (Direct selling is a channel of distribution for the marketing of products and services directly to consumers.)

Sales Activities

1. What were your total estimated retail sales in [country] in fiscal year 2003? (in local currency):

1b. If you do not calculate estimated retail sales, please provide your net (or wholesale) sales in [country] in fiscal year 2003?

2. What was the breakdown of your estimated total retail sales by the following product categories? If there were no sales or costs in that category, please report 0. Please note that the percentages should add to 100%.

Category	2003 Estimated Total Retail Sales (in %)
Personal Care Products , such as cosmetics, fragrances, skincare, jewelry, ladies and children's clothes and other personal items	_____ %
Food Products , such as frozen foods, gourmet foods, and other foods	_____ %
Health Products , such as nutritional supplements, meal replacement (food bars, drinks), diet plans and other products	_____ %
Household Products , security, water treatment, energy saving, electrical, home decorative, furnishing, cookware, tableware, kitchenware, houseware, home and car cleaning and other household products	_____ %
Family Related Products , such as books, toys, games, audio, video and business aids, photography, and scrap booking	_____ %
Service Products , such as telecom, utilities, insurance, financial, pre-paid legal and other services	_____ %
Other (Please specify _____)	_____ %
_____	_____ %
_____	_____ %
Total	100 %

Organizational Structure

3. Are you affiliated with any other companies in [country]? Yes No

(If “No”, please skip to Question 4)

3a. Are you a subsidiary of another company? Yes No

If “Yes”, where is your parent company based? _____

3b. Do you own any subsidiaries in [country]? Yes No
(If “No”, please skip to Question 4)

4. What compensation system for direct sellers does your company primarily utilize?

Single level compensation Multi level compensation

5. What was the total number of people involved in selling your products in [country] at the end of 2003? Please indicate the total amount paid to them (either in commissions, bonuses, including non-cash equivalent values, or wages and salaries).

	Number of People Involved in Sales	Commissions, Bonuses or Wages/Salaries (including non-cash equivalent)
Independent/self employed (direct sellers)	_____	_____

6. What was the total number of people directly employed by your company (your local HQ and manufacturing) in [your country] at the end of 2003? Only provide data for those who were full-time or part-time employees of your company.

Type	Number of People Involved in Non-Sales	Wages/Salaries (in local currency)
Administrative & support (including human resources, finance and sales support)	_____	_____
R&D, production & logistics	_____	_____
Total	_____	_____

7. What percentage of your active direct sellers in 2002 did not renew into the business in 2003? _____%

Other

8. How long has your company been operating in [country]? _____

Production & Logistics

9. Please provide the following information for the production facilities your company (or parent company) had in [your country] in 2003 (please include subsidiaries in the totals).

Number of facilities: _____

Product Description	Value of Production (in local currency)	Value of Exports (in local currency)
Goods sold through Direct Sellers		
Personal Care Products	_____	_____
Food Products	_____	_____
Health Products	_____	_____
Household Products	_____	_____
Family Products	_____	_____
Service Products	_____	_____
Other (_____)	_____	_____
Goods sold through other non-Direct Sellers	_____	_____
<i>Total</i>	_____	_____

10. What percentage of the value of direct selling goods sold does your own company distribute and what percentage do you contract for distribution with others in [country]?

Company owned distribution _____ %

Subcontracted distribution _____ %

11. Please provide your estimate of the following information for your company's subcontractors' production and distribution facilities for goods sold in the direct selling industry in [country] in 2003.

Type	Number of Employees	Percentage of Total Subcontractors' Sales Made to Your Company
Production Facilities	_____	_____ %
Distribution Facilities	_____	_____ %

12. Please indicate the breakdown of merchandise you have purchased from other firms for purposes of resale by region and type in 2003 (in local currency).

Region	From Company's Own Facilities	From Subcontracted Production Facilities	Product(s)
[Your Country]	n/a	_____	_____
Other Countries	_____	_____	_____
Total	_____	_____	

13. What were your company's approximate expenses for the following activities in [country] in 2003 (in local currency)?

Industry	Value of Products / Services Purchased by Your Company (at purchasing price)
Advertising	_____
Travel	_____
Meals & Entertainment	_____
Special Events (e.g., conferences, meetings, rallies, etc.) excluding travel and M&E expenses	_____
Telecommunications	_____
Postal & courier services	_____
Vehicle leasing	_____
Printing & publishing	_____
Packaging	_____
Other (_____)	_____
<i>Total</i>	_____

Investments

14. How much have you spent on capital investments in [country] over the past 3 years (in local currency)?

Year	Investment in Buildings	Investment in Equipment
2003	_____	_____
2002	_____	_____
2001	_____	_____

15. What were your company’s annual training expenses in [country] in 2003 (in local currency)?

For own employees _____
 For direct sellers _____

Taxation

16. Please indicate the taxes your company paid in [country] for 2003 (in local currency).

Corporate income taxes: _____
 Social security: _____
 Import duties: _____
 Indirect taxes (VAT): _____
 State and Local Taxes: _____
 Property Taxes: _____
 Other Taxes: _____
 License Fees: _____

Charitable Activities

17. Has your company been involved in any social or charitable activities in [country] over the last three years?

- Yes – [go to Q 17a]
- No – [skip to Q 18]

17a. If “Yes”, please provide detailed information on the year, activity and the amount of time and spending (in local currency).

	Description of Activities	Number of Volunteer Hours	Amount of Charitable/Philanthropic Giving
2003	_____	_____	_____
2002	_____	_____	_____
2001	_____	_____	_____

17b. Did you have any high impact charitable programs or activities in the past 5 years? If so, what was the estimated number of people impacted by each program?

Yes

No

	Name of Activity	Description of Activity	Number of People Impacted
1	_____	_____	_____
2	_____	_____	_____
3	_____	_____	_____

18. Please provide any other comments from consumers, direct sellers, government and/or others related to your business that might highlight the economic or societal benefit from the direct selling industry.

19. Finally, please fill out your contact information.

Your name: _____

Title: _____

Company name: _____

Your company address: Street Address: _____

City: _____

State/Province: _____

Postal Code or Zip: _____

Telephone: _____



Appendix C: Survey of Direct Sellers

2004 WFDSA Direct Seller Survey

Your Direct Selling Activity

Unless otherwise specified, please select only one answer.

1. How long have you been involved with Direct Selling?

- | | |
|--|---|
| <input type="checkbox"/> Less than 12 months | <input type="checkbox"/> 7-10 years |
| <input type="checkbox"/> 1-3 years | <input type="checkbox"/> More than 10 years |
| <input type="checkbox"/> 4-6 years | |

2. Have you conducted any direct selling activities in the past 2 years?

- Yes – go to Q3
 No – skip to Q23

3. What did you do before joining Direct Selling?

- | | |
|--|---|
| <input type="checkbox"/> Worked as a full-time employee | <input type="checkbox"/> Never worked before |
| <input type="checkbox"/> Worked as a part-time employee | <input type="checkbox"/> Other, specify _____ |
| <input type="checkbox"/> Self-employed | |
| <input type="checkbox"/> Worked before, but was unemployed | |

4. Why did you become a Direct Seller? [Check all that apply.]

- | | |
|---|--|
| <input type="checkbox"/> To become independent | <input type="checkbox"/> To have my own business |
| <input type="checkbox"/> To buy products for my own use | <input type="checkbox"/> To learn something new |
| <input type="checkbox"/> To earn additional income | <input type="checkbox"/> To meet new people |
| <input type="checkbox"/> To earn for a specific purchase (car, gifts, etc.) | <input type="checkbox"/> Other, specify _____ |
| <input type="checkbox"/> To get a major income source | |
| <input type="checkbox"/> To have more flexibility | |

5. Have you represented more than one company at the same time in the past 2 years?

- Yes
 No

6. Are you an on-going or seasonal Direct Seller?

- On-going (12 months a year)
 Seasonal (fewer than 12 months a year)

7. Is Direct Selling a full-time activity for you now?

- | | |
|--|---|
| <input type="checkbox"/> A full-time activity | <input type="checkbox"/> An additional part-time activity |
| <input type="checkbox"/> A part-time activity with no other employment | <input type="checkbox"/> Other, specify _____ |

8. On average, how many total hours do you usually dedicate to your Direct Selling business (including selling and training for Direct Selling) per week?

- | | |
|---|---|
| <input type="checkbox"/> 0 hours | <input type="checkbox"/> 15 to 19 hours |
| <input type="checkbox"/> 1 to 4 hours | <input type="checkbox"/> 20 to 29 hours |
| <input type="checkbox"/> 5 to 9 hours | <input type="checkbox"/> 30 to 40 hours |
| <input type="checkbox"/> 10 to 14 hours | <input type="checkbox"/> More than 40 hours |

9. Have you received any training last year? If yes, who provided the training?

- | | |
|---|--|
| <input type="checkbox"/> No, didn't receive any training | <input type="checkbox"/> Yes, received training from my upline |
| <input type="checkbox"/> Yes, received training from the direct selling company | <input type="checkbox"/> Yes, received training from an outside training company |

10. What is your status as a Direct Seller?

- Employee – skip to Q 11
- Self-employed – skip to Q 11
- Self-employed and have employees working for me – [go to Q 10a]

10a. How many people did you employ in 2003 to support your direct selling activities (administrative, reception, logistics)?

- | | |
|---|--|
| <input type="checkbox"/> Less than 5 people | <input type="checkbox"/> 11 to 50 people |
| <input type="checkbox"/> 5 to 10 people | <input type="checkbox"/> More than 50 people |

10b. What were your estimated total business expenses (including the expense of purchasing supplies, training employees and other business expenses) in 2003 (in local currency)?

Category	Total Expenses
Advertising	_____
Travel	_____
Meals & entertainment	_____
Special events (e.g., conferences, meetings, rallies, etc.) excluding travel and M&E expenses	_____
Telecommunications	_____
Postal & courier services	_____
Vehicle leasing	_____
Printing & publishing	_____
Packaging	_____
Purchasing supplies	_____
Employee training	_____
Other (_____)	_____
Total	_____

11. What were your total estimated retail sales in fiscal year 2003 (in local currency)?

12. Among the total sales you provided above, what percentage of your 2003 total estimated retail sales was for personal consumption?

_____ %

13. Please indicate if you have used any of the following approaches to contact people to sell your product. If yes, please indicate how often you use it.

Approach	Used		Frequency		
	Yes	No	Seldom	Sometimes	Often
Advertisements, flyers	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Contacts through other people	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Friends	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Home parties	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Internet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Knocking on doors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Telephone	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other, specify _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

14. Please describe your consumers by age and location.

By Age	
Younger than 18 years old	_____ %
18 to 60 years old	_____ %
61 years old or older	_____ %
Total	100%

By Location	
Urban	_____ %
Suburban	_____ %
Rural	_____ %
Total	100%

Impacts of Direct Selling

15. In general, how satisfied are you with your Direct Selling activities?

- | | |
|--|---|
| <input type="checkbox"/> Not satisfied at all | <input type="checkbox"/> Somewhat satisfied |
| <input type="checkbox"/> Somewhat unsatisfied | <input type="checkbox"/> Very satisfied |
| <input type="checkbox"/> Neither unsatisfied nor satisfied | |

16. What are some benefit(s) to you of being a direct seller? [Check all that apply.]

- Able to take better care of my family
- Buy products at lower price
- Develop new personal and business skills
- Earn more money
- Have flexibility
- I am my own boss
- Improve my family's quality of life
- Have independence

- Meet and socialize
- Own my own business

17. Would you disagree or agree that you have benefited from Direct Selling activities in terms of improved professional skills in the following perspectives?

	Strongly Disagree	Somewhat Disagree	Neutral	Somewhat Agree	Strongly Agree
Better organize your agenda	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Build better sales skills	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Build business management skills	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Build self esteem and confidence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Feel more at ease in front of an audience	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Improve performance on other jobs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Take more initiatives	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Work better with others	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other, specify _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

18. Have the benefits carried over to another part of your life? [Check all that apply.]

- Yes, in my private life
- Yes, in another job
- Nowhere else

19. How do you use the money earned through your Direct Selling activities? [Check all that apply.]

- Daily expense
- Savings
- Holidays & vacations
- New house / home improvement
- Car
- Education
- Improve your quality of life (better food, households goods, etc.)
- Personal development
- Telecommunication & information technology
- Other, specify _____

20. Which of the following business investments did you have because of your involvement with Direct Selling? [Check all that apply.]

- Car
- Personal computer
- Fax machine
- Mobile phone
- Internet access

21. Do you contribute money, goods or services to social programs in the following areas? [Check all that apply]

- Human services, charity
- Education
- Environment
- Arts & culture
- Sports
- Other, specify _____

22. Please briefly describe one or two important things that have happened to you or your family OR that have helped others, as a result of being involved in direct selling.

23. Have you represented more than one company at the same time in the past 2 years?

- Yes
 No

24. Have you represented more than one company at the same time in the past 2 years?

- Yes
 No

Demographics

Finally, we are asking a few questions about you.

25. Your gender

- Male Female

26. Your age

- Younger than 18 50 – 65
 18 - 34 Older than 65
 35 - 49

27. Your marital status

- Single, never married – skip to Q 26
 Married / Co-habitant – go to Q 25a
 Divorced / Widow – skip to Q26

25a. Is your spouse/partner also a direct seller and you do direct selling together?

- Yes No

28. Do you have any kind of disability?

- Yes No

29. What is the total number of people living with you in the same household?

30. What type of area do you live in?

- Rural Suburban Urban

31. What is your highest education level?

- Below high school
- High school graduate
- College degree
- Graduate degree (e.g., Masters, Ph.D.)
- Professional degree (e.g., MBA, MD)

=====

Finally, please provide your contact information.

Your name: _____

Your mailing address: Street Address: _____

City: _____ State/Province: _____

Postal Code or Zip: _____

Telephone: _____

Thank You!

**Please return your completed questionnaire
in the envelope provided.**

Appendix D: Technical Appendix

Sampling Methodology for Selection of Direct Sellers

Allocation

The South Korean Direct Selling Association (KDSA) supplied Ernst & Young with a current list of KDSA members. The list was comprised of 53 members, and included the estimated total wholesale revenues and the estimated number of direct sellers for each member.

Two thousand survey questionnaires were allocated amongst each of the 53 members relative to their corresponding total wholesale revenues. The number of surveys each member received was in direct proportion to its percent of total wholesale revenues for all KDSA members. For example, a member that had 10 percent of the total wholesale revenues for all KDSA members would receive 10 percent of the total surveys distributed, or 200 surveys ($2,000 * 10\% = 200$ Surveys). In other words:

$$\text{Surveys Distributed to Company X} = (2,000) * \frac{\text{Total Wholesale Revenues for Company X}}{\text{Total Wholesale Revenues for TDSA}}$$

One potential disadvantage to this strategy was that some companies would be asked to select a very small number of direct sellers. To prevent this companies who were initially allocated less than five surveys were removed from the final sample size determination. Their portion of the survey allocation was then reallocated to the remaining members using the same methodology as described above.

Sample Selection

Following a final determination of the companies sampling their direct sellers and the number of sellers to be selected, sample selection was carried out by each individual company. Twenty-one companies were requested to follow specific instructions, designed by Ernst & Young, to select a systematic sample of their direct sellers. Each company received the number of individual direct sellers to sample, a random number table, and a series of detailed sampling instructions. Some companies sent more questionnaires than requested, resulting in a final direct seller sample size of 3,020.

An example of the sampling instructions sent to each of the selected KDSA members is provided in Appendix E.

Weighting Methodology

The unweighted direct selling organization survey results reflect the practices and opinions of only the responding members of the KDSA. To inflate the survey results to represent the entire direct selling industry in South Korea, weights were used.

The KDSA supplied Ernst & Young with information regarding the entire direct selling industry for South Korea in 2003. The information included:

- The total number of companies in the entire industry,

- The estimated total sales force in the entire industry, and
- The estimated total wholesale revenues for the entire industry.

The weights were calculated by dividing the total industry estimate by the respondent estimate. For example, the weight used for industry sales estimates was calculated as follows:

$$\text{Sales Weight} = \frac{\text{Total Wholesale Revenues for the Industry}}{\text{Total Wholesale Revenues for Respondents}} = \frac{7.94 \text{ T won}}{1.77 \text{ T won}} \approx 4.5$$

Thus each South Korean won in the respondents estimate represents approximately 2.3 South Korean won in our overall industry estimate. Similar methodology was used in calculating weights for industry estimates dealing with the number of direct sellers.

Economic Impact Methodology

The methodology for the economic contribution analysis was based on a number of different sources. The key aggregate statistics for the industry were from the KDSA – these include total revenue and the number of direct sellers receiving compensation.

The information was supplemented with a survey of the Korea Direct Selling Association members regarding their employees, production facilities, expenses, and taxes. The E&Y survey had 21 responses from KDSA members representing approximately 18 percent of the direct selling industry's revenue.

The South Korean input-output matrix for 1998 was used to establish the relationships between the direct selling industry and the rest of the South Korean economy. The input-output matrix is compiled by the Bank of Korea's Economic Statistics System.

Because the direct selling industry is only a part of the total retail industry, it was necessary to modify the input-output model to reflect the specific composition of the direct selling industry. A separate sub-industry was created based on the mix of products sold by the direct selling industry, as reported by the KDSA. The direct selling industry then had a weighted average relationship with other industry sectors.

An economic model, based on the South Korean input-output table, was developed by Minnesota IMPLAN Group, Inc. to account for the complex economic interactions among producers, intermediate suppliers and consumers. The input-output relationships in the model identify how higher direct employment in the direct selling industry leads to higher indirect employment and output in supplier industries and additional induced economic activity from increased spending by consumers. The economic model estimates the combined nationwide economic impact (initial and multiplier effects) of direct selling activity in South Korea.

The estimated tax contribution is based on the estimated company payments from the direct selling organizations plus an estimate of taxes from the direct sellers, suppliers and induced economic activity. The taxes for the latter activity are based on the average relationship between taxes and national income in South Korea.

Appendix E: Sampling Instructions

■ Ernst & Young LLP
1225 Connecticut Ave NW
Washington, DC 20036

■ Quantitative Economics and Statistics

Date: September 2004

To:

From: Glenn White, Ernst & Young LLP

Subject: World Federation of Direct Selling Associations (WFDSA)
Statistical Sampling and Mailing Instructions for Direct Seller Survey

The World Federation of Direct Selling Associations (WFDSA) is partnering with the DSA of **INSERT COUNTRY** to conduct a Socio-Economic Impact Study on Direct Selling. To gather the necessary economic data, surveys are being sent to randomly selected companies and direct sellers located across the globe. Your company and country is one of the first to be chosen. To ensure confidentiality, WFDSA's global partner for the Socioeconomic Impact Studies, Ernst & Young LLP (E&Y) has supplied information below to randomly select your company's own direct sellers and to distribute the survey. To help maintain the study schedule please complete all the steps below before **INSERT DATE**.

Selection Instructions

To properly select survey participants, please follow the 5 steps provided below:

- Step 1:** Define the population: Acquire a list or database of all eligible direct sellers. Eligible sellers include any seller that has been actively selling within the last two years or has been recruited within the last two years.
- Step 2:** Preparing the population: Sort the list by alphabetical order by the direct sellers last name (i.e. from A to Z), or by the direct sellers identification number and then number the sorted list from 1 to the total number of eligible direct sellers in the company.
- Step 3:** Use random numbers: Enclosed is a list of six digit random numbers. Determine the size of your population. If you have between 100,000 and 999,999 direct sellers, use the entire six-digit number. If you have between 10,000 and 99,999 direct sellers, use only the first 5 digits of each number. If you have between 1,000 and 9,999 direct sellers, use the first 4 digits and if you have fewer than 1,000 direct sellers, use only the first 3 digits of each number.
- Step 4:** Select the sample: Select the direct seller whose number from step 2 matches the first random number on the list. Continue to the next random number and select the direct

seller indicated. Continue in the same fashion until you have reached **XXX** selected direct sellers. This is your sample of direct sellers.

Note: When using these numbers, please disregard any duplicate numbers selected. For example, suppose you have fewer than 1,000 direct sellers, so that you are using only the first 3 digits of each random number. If you have already selected the random number 101,459, you should ignore the numbers 101,641 and 1,011 and any other numbers starting with 101.

Step 5: Issue Survey: The sampled list of direct sellers should include the sellers name and a corresponding valid mailing address of the seller. Once the list of selected sellers is created, please send a survey to each selected direct seller following the instructions below for mailing out the surveys.

Mailing Instructions for Distributing Surveys

Please follow the five steps below:

Step 1: Confirm that you have all your materials prepared: You should have a mailing list created from your sample selection and the following for *each* respondent:

- A printed copy of the survey introduction letter and instructions
- A printed copy of the survey
- A smaller return envelope stamped and addressed to your local Ernst & Young office (include appropriate address)
- A mailing envelope addressed to the respondent that is large enough to contain all survey materials without folding. There should be one large mailing envelope for each person on your sample list.

Step 2: Package all materials for each respondent: In each large mailing envelope, place the survey materials in the following order:

1. Introduction and instructions,
2. Survey, and
3. Stamped, return envelope addressed to

INSERT LOCAL E&Y ADDRESS

This will ensure that the introduction letter is the first thing a respondent will see – this helps to encourage them to fill out the survey.

Step 3: Assign postage to the completed large mailing envelopes: It is important to ensure that adequate postage is applied since surveys are typically larger and/or heavier than a country's prevailing "letter rate". Check with the post office to minimize delivery issues.

Step 4: Mail the large envelopes to the respondents: Once all survey documents are in the addressed large mailing envelopes with adequate postage, the surveys are ready to send out.

Step 5: Follow-up on the surveys: Within a few weeks of mailing the surveys, please follow-up with the respondents to encourage their participation. This can take the form of direct contact (such as over the telephone) or through a mailed "reminder" to the respondent to fill out the survey. A potentially useful tool for such a reminder is your regularly mailed company bulletin or newsletter.

Confidentiality - Due to the proprietary nature of many of the questions, we wish to emphasize that **all** company and individual direct seller information gathered as a result of this study will **remain confidential**. Only Ernst & Young professionals responsible for the survey will have access to your individual responses. Summary information from the survey will not identify any company, individual, project or program. If you have any questions, please contact Glenn White a +01.202.327.6414 at Ernst & Young.