The Social and Economic Contributions from Direct Selling – Insight from South Africa

Executive Summary

Direct selling in South Africa is a rapidly expanding channel of distribution that provides significant economic and social contributions to South African families and to the country as a whole.

This report highlights the many contributions of the direct selling industry to South Africa, based on a Socio Economic Impact Study (SEIS), which analysed results from two new surveys, one of direct selling companies and a second of individual direct sellers. An additional consumer questionnaire gave insight into consumer attitudes towards Direct Selling. The Direct Selling Association of South Africa (DSA SA) and the World Federation of Direct Selling Associations (WFDSA) jointly commissioned the SEIS research. The information contained within this report is representative of those member companies, direct sellers and consumers who completed questionnaires. (Appendix D details the various methodological approaches in a comprehensive manner and provides a summary of the sample base).

Direct selling is a unique and often misunderstood business. While the concept of non-store retailing itself is quite common (i.e. catalogues, TV or radio sales, telemarketing or Internet sales), direct selling is unique because it offers a personalised retail experience. Consumers benefit from product demonstrations, trials and customised 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 it allows them to own their own business and provides them the opportunity of self-employment with modest start-up 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 or supplementary income to South African households.

The South African Direct Selling Industry

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

Africa has massive unemployment. The formal sector is not able to provide sufficient employment opportunities. However, it is also a massive consumer market with an underlying entrepreneurial spirit that is ideally suited to direct selling. Africa has been earmarked by the G8 as a priority worldwide, but with an emphasis of helping its people become self-reliant, and developing income opportunities and employment, not just giving handouts. Direct Selling in Africa is directly influencing many lives providing a positive alternative to working in the formal sector and tapping into the African entrepreneurial spirit.

The direct selling industry in South Africa comprised of more than 50 companies (full members and probationary members, 2007), with total sales revenue of R 5,3-billion in 2007.

Unless stated otherwise all currency in this report is stated in South African Rands (R). The average 2007 conversion rate was US$ 1 = R 6.80).

The industry includes a number of global companies with household names such as Amway, Avon, Avroy Shlain Cosmetics, Herbalife, Tianshi and Tupperware. There are also many South

African based companies, including Africa Direct, AMC Cookware, Annique, Clientele Life, GNLD, Pres Les, Sportron and Swissgarde.

The direct selling industry accounted for 1.2% of total retail sales in South Africa (Figure 2.1) This is for ALL consumer goods, so if compared only with those products sold within direct selling, the percentage would be higher. 2007 began to show signs of the effect of tightening monetary policy within the retail sales environment.

In 2007, there were 933,772 South African people associated with the direct selling industry building businesses and/or purchasing/retailing products: most of who received compensation (rebates, commission, overrides or bonuses) from direct selling companies. 250,772 of these were active business builders: direct sellers who all received compensation (rebates, commission, overrides or bonuses) from direct selling companies, and whose average earnings were tabled.

Direct selling is a growing industry in South Africa and also growing in parts of southern Africa. Compulsory to DSA SA membership, companies are required to provide DSA SA with annual statistics, which include sales turnover and number of direct sellers. This has been a requirement since 2005. Total sales in 2005 were reported as R 4,1-billion and in 2007 as R 5,3-billion, representing 29.3% industry growth over the two-year period. (Figure 2.2)

Direct selling offers a wide variety of products globally ranging from personal care, household products, wellness, cosmetics, food, services, to financial products. Selling in South Africa (2007) was mainly concentrated in household goods (27% of sales), health and wellness (24% of sales), financial products (15% of sales) and personal care products (11% of sales). Other products include fragrance, cosmetics, jewellery and educational products (Table 2.3)

Across the industry generally, 75% of direct sellers are women (MSA Survey of South African Direct Selling Companies, 2007), which demonstrates direct selling's uniqueness in providing entrepreneurial opportunities for women that might not be available to them otherwise. In the direct seller survey group, the figure for women as direct sellers is 82% (Table2.4). More than 73% are married or living with a life partner, of which, 26% are working in the direct selling business together. The demographics of the industry are family-oriented. This leads to improved earning power and quality of life for South African families (Table 2.4).

Economic Contributions of the Direct Selling Industry in South Africa

Direct selling contributes significantly to the South Africa economy both financially and in terms of quality of life. The collective annual compensation (rebates, commission, overrides, bonuses and incentives) of self-employed direct sellers in 2007 was R 2,2-billion (average annual earnings over 250,772 active direct sellers = R 8,776 each). The collective annual earnings of permanent employees of direct selling organisations totalled R 414,5-million. These earnings, while important, represent only a portion of the economic and social contribution the industry makes to the South African economy.

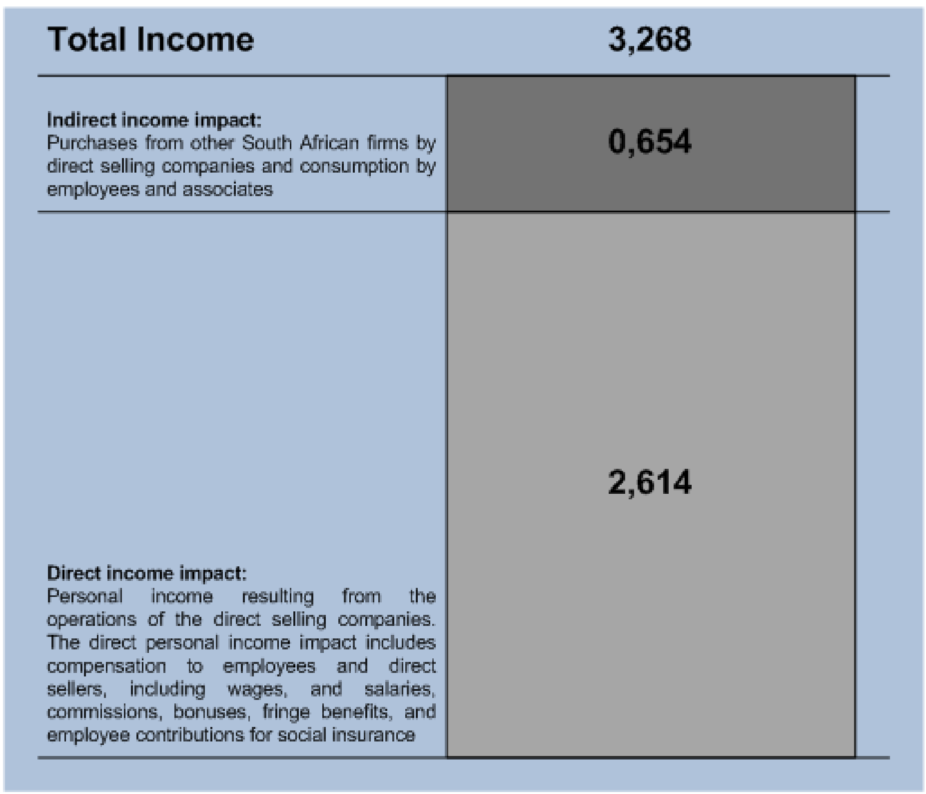
Including all direct sellers and permanent employees of the industry, a total of 937,022 South Africans were associated with the direct selling industry in 2007. This combined labour force earned an estimated R 2,614-billion through their association or employment with the direct selling industry in 2007. This total compensation, including R 414,5-million in wages paid to permanent employees and R 2,2-billion of rebates, commissions, overrides, bonuses and incentives awarded to direct sellers, represents a significant direct economic impact of the industry's activity in South Africa.

The direct selling industry contributes to South African employment in two additional ways. First, the industry buys products and services from other South African companies (suppliers), supporting additional South African 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 housing, medical, entertainment, and services sectors. This second effect is referred to as the **‘induced employment contribution’**.

Based on our analysis of input data and the adoption of an income multiplier (Refer Appendix E: Technical Instructions/Methodology) it is estimated that R 654-million in South African personal income was created through the indirect and induced income impact, in addition to the significant direct income impact (Figure ES.1)

Figure ES.1: Total Personal Income Contribution of the South African Direct Selling Industry, 2007

(R billions)



Fiscal Contributions of the Direct Selling Industry in South Africa

The direct selling industry’s contributions to jobs, income, investment and research and development also result in tax collections for the South African government. The direct selling organisations, their employees and direct sellers are estimated to pay R 588-million in tax payments. (Table 3.3)

Social Contributions of the Direct Selling Industry to South Africa

Not only does the direct selling industry make a substantial economic contribution to the South African economy, the industry also contributes considerably to the quality of life enjoyed by many South Africans. While economic contributions are more easily measured, the direct selling companies and direct seller surveys also shed light on the social contributions of the industry.

Potential financial benefits, possibilities for entrepreneurship, independence, work schedule flexibility and the opportunity to develop personal business skills are some of the major benefits cited by direct sellers. Support of the communities and company Corporate Social Investment programmes are also of benefit to quality of life.

These social contributions are not less important than the economic contributions.

Benefits of Direct Selling to Direct Sellers

Potential Financial Benefits
Direct selling provides the opportunity for direct sellers to supplement their income or to generate an alternate income source. Depending on their own and/or their family financial needs, direct sellers can invest time into direct selling on a part-time flexible basis in order to generate additional income. Of those responding to the survey, 64% cited "earn additional income" as a benefit; 37% cited "major income source"; and 26% cited the ability to "earn for a specific item." (Figure 4.1)

Development of Entrepreneurship
Direct sellers have opportunities to develop their own business, fostering an environment of entrepreneurship. They also see this as an opportunity to be independent (own boss, financially, and flexibility). They own their own small business, while benefiting from the assistance of larger, more established direct selling companies. Of those responding to the survey, 59% cited "become independent" as a benefit; and 51% cited the ability to "own my own business" as a benefit. (Figure 4.1)

Work Schedule Flexibility
Direct sellers have opportunities to develop their own part-time or full-time business, offering work schedule flexibility that fits in with the demands of a family or as a flexible-hour supplementary income resource. Of those responding to the survey, 43% cited "flexibility" as a benefit. (Figure 4.1)

Development of Increased Personal Business Skills
A significant percentage of direct sellers listed personal skills development as a significant benefit; skills development that they attribute to their participation in direct selling. Of those responding to the survey, 39% cited "learn something new" as a benefit (Figure 4.1). In addition, when asked to describe the benefits of being a direct seller (Figure 4.5), of those responding to the survey, 79% cited "develop personal/business skills" as a benefit

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. This is especially true in the rural areas of South Africa, which sprawl across large geographic locations, as well as in some regional city suburbs.

Direct selling increases access to retail markets in these areas, generally under-served by traditional retail channels. In addition, direct selling serves the older consumer, some who may no longer find it convenient to visit local stores and retail outlets and prefer the ease of direct selling. 34% of direct selling consumers live in rural areas and 24% of direct selling consumers are age 50 or older. Direct selling provides these consumers with access to additional goods they might not otherwise be able to find.

Contributions from Charitable Giving

Where it is difficult to give an estimated Rand value to the contributions made by direct selling companies and direct sellers to charitable causes in 2007, 36% of direct selling companies responded to this question indicated that they did contribute money, goods, services and volunteer hours to social programmes. Each year, the Direct Selling Education Foundation (DSEF) recognises company contributions through the Vision for Tomorrow awards presented for Corporate Social Investment Programmes. These programmes assist to uplift the communities of South Africa. A high percentage of these programmes embrace HIV/Aids. South Africa has one of the highest HIV/Aids infection rates in the world and many activities are directed to this need, especially where it involves infected children and the many orphans left in the wake of the pandemic, and children left vulnerable to abuse. In addition, direct seller respondents also said they contributed to community services and charities, 46% cited involvement with community service; 44% with church outreach; 35% with charity drives; and 26% assisting with educational needs (Figure 4.9).

Conclusion

The direct selling industry in South Africa is a growing, vibrant part of the South African economy and community. Its contributions to South African families and the South African economy are significant and important. The industry provides much needed employment, and many more people are discovering and embracing this opportunity for the first time such as the historically disadvantaged, the physically challenged, and an older group of people who otherwise were likely to face a difficult retirement with minimal income and financial reserves.

Whilst we need to emphasise that this study attracted response primarily from direct sellers who are relatively entrenched in their activities i.e. those who regard it as their main income stream (Refer to Appendix D for methodology and summary of the sample group), the industry is also very significant in terms of those who are attracted to it as a means of earning supplementary income.

While the economic contributions of jobs, personal income, income spend, and taxes can be quantified, it is also important to recognise the social contributions that are made to social upliftment of communities and to individual families' lives and well-being. Increased self-esteem, self-confidence, and better sales and business 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:

I have gained in self-confidence. I am able to afford things that I could not normally have afforded. I have developed very special friendships with my upline and downline direct sellers, and also customers. This work has completely changed my life!

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1. Introduction

Purpose and Scope of Study

Market Support Associates (MSA) was commissioned jointly by the Direct Selling Association of South Africa (DSA SA) 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 Africa. The objective of this study is to present the direct and indirect social and economic impact of the South African direct selling industry. Regulatory and legal issues are outside the scope of the study.

This report highlights the many contributions of the direct selling industry to South Africa, based on a Socio Economic Impact Study (SEIS), which analysed results from two new surveys, one of direct selling companies and a second of individual direct sellers. An additional consumer questionnaire gave insight into consumer attitudes towards Direct Selling. The information contained within this report is representative of those member companies, direct sellers and consumers who completed questionnaires.

All DSA member companies (52 full/probationary member companies/2007) were given a questionnaire to complete. The questionnaire was divided into three sections: sections one and two were required as compulsory data for DSA membership; section three was additional questions for the SEIS research. 84% of members completed the questionnaire, albeit that some did not complete all three sections.

The Direct Seller research was also based on questionnaire self-completion and DSA member companies were supplied with questionnaires electronically and, where requested, printed copies delivered for distribution to Direct Sellers. A random sample of 2,000 (or more) direct sellers received questionnaires asking about their experiences as direct sellers and the impact the industry has made on their lives. The intention was to aim for 1000 completed questionnaires; 60% of that goal was achieved. The questionnaires received represent 0.24% of the Active Direct Sellers (Active business builders).

In addition a consumer study was conducted. The total sample was 300 respondents and, within this group, 54% had bought from a direct selling/MLM company, 35% had been approached and considered purchasing from such a company but who did not actually do so, and 11% who had both experiences.

Appendix D details the various methodological approaches in a more comprehensive manner.

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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 (i.e. catalogues, TV or radio sales, telemarketing or Internet sales), direct selling is unique because it offers a personalised retail experience. Consumers benefit from product demonstrations, trials and customised 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 it allows them to own their own business and provides them the opportunity of self-employment with modest start-up 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 or supplementary income source for South African households.

The direct selling industry in South Africa 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 and important role in the South African 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 away from a permanent, fixed retail location, usually through the explanation or demonstration of products and services

WFDSA further describes direct selling as *a dynamic, vibrant, rapidly expanding channel of distribution for the marketing of products and services directly to consumers (www.wfdsa.org). Consumers benefit from direct selling because of the convenience and service it provides, including personal demonstration and explanation of products, home delivery, and generous satisfaction guarantees. Moreover, direct selling provides a channel of distribution for companies with innovative or distinctive products not readily available in traditional retail stores, or who cannot afford to compete with the enormous advertising and promotion costs associated with gaining space on retail shelves. Direct selling enhances the retail distribution infrastructure of the economy, and serves consumers with a convenient source of quality products.*

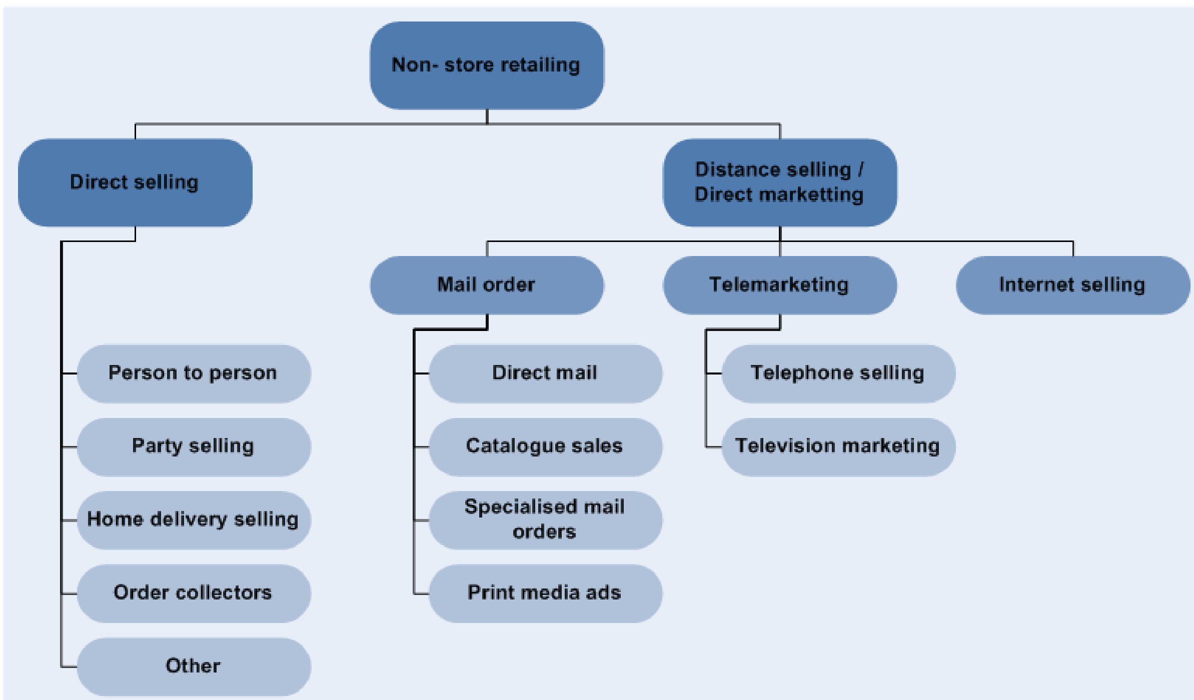
Direct selling is a part of non-store retailing, or retailing that takes place outside of the traditional store environment. Direct selling is composed of independent direct sellers, who offer personalised interaction between customers and product representatives.

Unlike traditional in-store retailing, non-store retailing does not require a fixed retail location. Non-store retailing methods include catalogues, mail order, telemarketing, television marketing, and Internet sales – often referred to as direct marketing or distance selling which may be described as an interactive system of marketing that uses one or more advertising media to effect a measurable response and/or transaction at any location, with this activity stored on a database, with some commonly known selling techniques as described. 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 1.1 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 personalised interaction with people who are knowledgeable about the products. This makes the purchase experience convenient and informative. Although direct selling organisations occasionally use some direct marketing or distance selling techniques and technology to enhance their businesses, the primary difference between the two methods of marketing is the face-to-face, or personal presentation that is always an aspect of the direct selling relationship. 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 used 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.I: 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 specialise 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 start-up cost for the individual direct seller is low. New direct sellers can join the direct selling organisation with minimal up-front investment, allowing them to grow their business based upon their own initiative and efforts.

Compensation Structure of Direct Selling Organisations

Direct selling organisations are generally organised into a single or multi-level compensation model, or, incorporating both with hybrid methodology.

- Single-level organisations (21% of DSA companies) offer one of two sources of compensation to their direct sellers. The first is the mark-up between wholesale and retail prices; the second is rebates or commissions, paid directly to the direct seller. For the most part, the direct seller acts as a traditional retailer, buying the product as wholesale from the organisation and selling it to the consumer at a retail price.

- Multi-level organisations (43% of DSA companies) offer direct sellers an additional method of compensation. Direct sellers still earn income through sales to their direct customers, as in a single-level organisation. 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 organisation.

- Hybrid organisations (36% of DSA companies) have become more popular, using a combination of both single-level and multi-level.

As described in these definitions, direct sellers are not employees of the direct selling organisation – 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 Africa based on the two surveys described above. An overview of the South African direct selling industry is provided in Section 2, followed by an estimation of the economic contribution of this industry in Section 3. Section 4 discusses the important non-economic social contributions that the direct selling industry has on the South African population. Section 5 touches on consumer responses to the South African direct selling industry. The appendices contain information regarding data sources and methodological descriptions.

2. The South African Direct Selling Industry

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

Size of the Industry

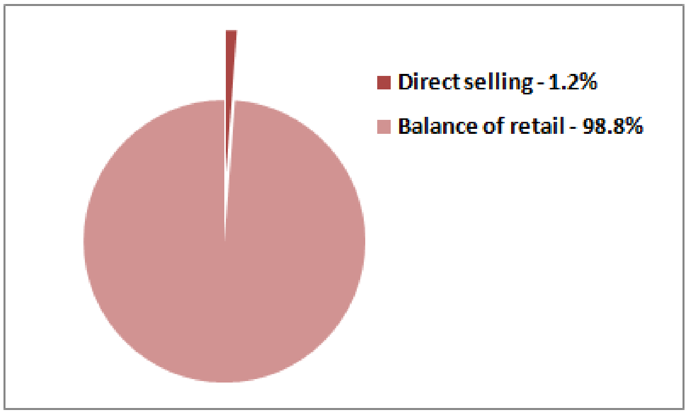
As of 2007, there were more than 50 direct selling companies in South Africa (full members and probationary members). The industry includes a number of global companies with household names such as Amway, Avon, Avroy Shlain Cosmetics, Herbalife, Tianshi and Tupperware. There are also many South African based companies, including Africa Direct, AMC Cookware, Annique, Clientele Life, GNLD, Pres Les, Sportron and Swissgarde.

Based on currently available information, DSA SA member companies account for the majority of total direct selling revenues in South Africa. The direct selling industry is well entrenched in South Africa, with the first direct selling companies appearing in around

1970, and the DSA SA established in 1972. A few of the DSA SA member companies have recently celebrated 35-years in business. The aggregate time for being in business is 20-years. There is a list of DSA SA members in Appendix A.

Direct selling industry revenues in South Africa totalled R 5,3-billion in 2007. With retail sales totalling R 447,7-billion in South Africa (Statistics SA), direct selling represents a 1.2% share of the total retail market (Figure 2.1).

Figure 2.I: Direct Selling Share of Retail Sales



Source: Statistics SA (SA Government website)

933,772 South Africans were associated with the direct selling industry as direct sellers as of 2007. In 2007, the industry had a sales penetration rate of 32.55 – that is one direct seller for every 32.55 people in South Africa (based on working population aged 15-65). Compared to the sales penetration rates in other countries, Table 2.1, South Africa recognises the potential for significant growth in the direct selling industry.

Table 2.I: Direct Selling Penetration Rates – Selected Countries, 2007

Country	Working Population	Direct Sellers	Penetration Rate
USA	153,8 million	15,000,000	10.25
Russia	75,0 million	3,375,849	22.21
Japan	66,7 million	2,700,000	24.70
Korea	24,2 million	3,187,933	7.59
Australia	10,9 million	610,000	17.86
Columbia	20,8 million	771,360	26.97
South Africa	30,4 million	933,772	32.55

Source: WFDSA / DSA SA / Statistics SA / US Labour Bureau & US Census Bureau / Federal State Statistics Service / Statistics Bureau of Japan / Korean International Labour Foundation / Australian Bureau of Standards / Banco de la Republica Columbia & CIA World Factbook

As stated above, South Africa has 933,772 direct sellers involved in the direct selling industry. Table 2.2 compares data on the size of the South African direct selling industry relative to the South African population as a whole.

Table 2.2: South African Population and Employment Data, 2007

Category	Population
Total population	47,9 million
Total population (age group 15 - 65)	30,4 million
Total labour force	30,4 million
Of which, unemployed	3,9 million
Of which, employed	13,2 million
Of which, non economically active	9,8 million
Of which, discouraged work-seekers	3,4 million
Total Direct Sellers Receiving Compensation	0,9 million

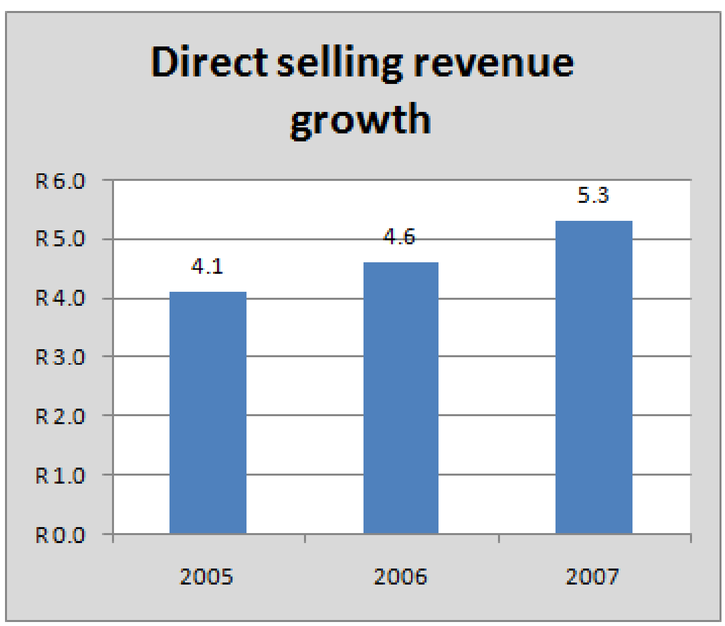
Source: DSA SA / Statistics SA

Growth of the Industry

Figure 2.2 shows the recent growth trends in South Africa direct selling revenues. Direct selling is a growing industry in South Africa and also growing in parts of southern Africa. Compulsory to DSA SA membership, companies are required to provide DSA SA with annual statistics, which include sales turnover and number of direct sellers. This has been a requirement since 2005. Total sales in 2005 were reported as R 4,1-billion and in 2007 as R 5,3-billion, representing 29.3% industry growth over the two-year period.

Figure 2.2: South African Direct Selling Industry Revenue Growth

(R billions)



(Verifiable information not available prior to 2005, as it was not a compulsory requisite for DSA member companies to supply these figures before this date)

Breadth of the Industry

Direct selling organisations sell a wide variety of consumer products and services. Table 2.3 shows 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 2.3: Direct Selling Product Categories

Total Product Sales Value R 5,3-billion

Product Categories	**Percent of Revenues**
Household Goods	26.99
Health & Wellness	24.29
Financial Products	15.54
Personal Care Products	10.96
Fragrance	7.33
Cosmetics	7.04
Jewellery	3.44
Other	4.41
Total	**100%**

Source: DSA SA / MSA Survey of DSA SA member companies, 2007

In the South African direct selling industry, the primary category of product sales is household goods (26.99%), followed by health and wellness (24.29%), financial products (15.54%), personal care (10.96%) and other products (22.22%)

Demographics of the Industry

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

Whilst these percentages reflect analysis from the direct seller group, information from the MSA Survey of South African Member Companies, 2007, revealed that 75% of direct sellers are female and 25% male.

As shown in Table 2.4, the industry is predominantly female (82%) of women, almost half are in the 35-49 age group (48%) (indicating an industry profile of an older, rather than younger, seller). The majority are married or living with a life partner (73%), and, of those who said that their partners were also direct sellers (26%), 84% said they run the direct selling business together. The industry has been successful in reaching out to women and families who often strive for a more flexible work arrangement.

In addition to themselves, there is a broad spread of number of people living in their household but the aggregate is 5. Most direct sellers live in the suburbs of cities or large towns. From our sample group direct sellers are generally well educated and many professionals are attracted to the industry. Slightly more than one-third have a tertiary education such as teachers and nurses, and 26% are university graduates.

However, direct sellers from across the industry come from various educational backgrounds, with many who do not have post-school qualifications and others without Matric.

Direct selling allows participation for segments of the population that might otherwise not be able to earn a living in more traditional industries. It also offers opportunities for the physically challenged (3% of direct sellers have some kind of disability), and also provides an opportunity for those considering what to do beyond retirement (31% are above 50 years of age). State financial support is negligible and, due to various economic and social factors (not covered within this study), many South Africans are not financially prepared or adequately covered for retirement. Many people in the age group 50+ are recognising the benefits of direct selling and the opportunity of potential financial independence and entrepreneurial development beyond the “official” retirement age.

Direct selling offers substantial flexibility and independent business opportunities for those in the industry.

Direct selling is therefore a unique industry that contributes to improved quality of life, improved earning power, and more entrepreneurial opportunities for South Africa families.

Table 2.4: Characteristics of Direct Sellers

Demographics	Category	% of respondents
Gender:	Male	16
	Female	82
Age:	18-24	2
	25-34	17
	35-49	48
	50-65	25
	65+	6
Disability:	Those who have a disability	3
Marital status:	Married/life partner	73
	Single/divorced/widow	25
Partner involvement:	Also a direct seller	26
Of this group:	Manage the business together	84
Total in household:	Two or less	19
	Three	15
	Four	22
	Five	15
	Six or more	12
Residential area:	City/large town/urban	28
	City suburbs	57
	Rural	11

Education:	Below high school	7
	High school	28
	College/tertiary	36
	Under-graduate degree	15
	Post-graduate/ Professional degree	11

Source: MSA Survey of South African Direct Sellers, 2007

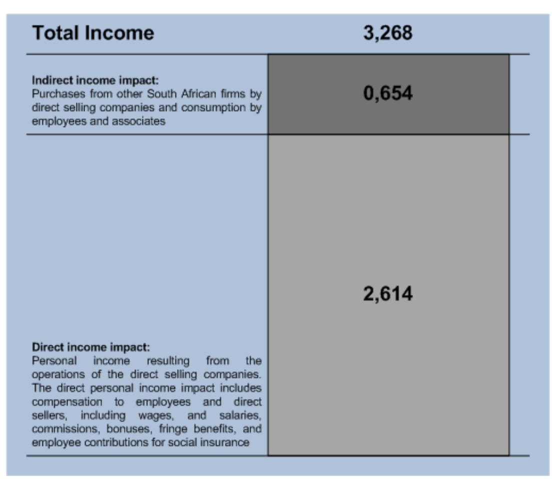
3. The Economic Contribution of the South African Direct Selling Industry

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 African 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 African economy.

Direct Economic Contribution of Direct Selling Organisations

In 2007, the direct selling industry revenue grew to approximately R 5,3-billion and direct selling companies paid compensation (rebates, commissions, overrides, bonuses and Incentives) of R 2,2-billion in 2007 to their 250,772 Active Business Builders (Direct Sellers); providing an average annual direct seller income of R 8,776. In addition, direct selling organisation's employees, involved in administration, production, logistics and research and development earned an estimated R 414,5-million in 2007. In total, direct sellers, direct selling organisations, and their employees earned an estimated R 2,614-billion in wages, salaries, and non-wage compensation (including fringe benefits, retained earnings, interest, and dividends) from the direct selling industry in 2007. These earnings represent the 'direct' income impact of the direct selling industry.

Figure 3.1: Total Personal Income Contribution of the South African Direct Selling Industry, 2007 (R billions)



Source: MSA calculations (Refer Appendix E: Technical Instructions/Methodology)

Suppliers (Indirect) and Employee Spending (Induced) Contributions

The direct selling industry contributes to South African employment in two additional ways. First, the industry buys products and services from other South African companies (suppliers), supporting additional South African 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 housing, medical, entertainment, and services sectors. This second effect is referred to as the **'induced employment contribution'**.

Figure 3.1 shows the combined impact of the direct, indirect and induced income contributions.

Creating economic activity

Direct selling companies create economic activity in non-direct selling companies, such as product manufacturers and advertising firms.

Table 3.1 illustrates the types of input purchases made by direct selling companies from suppliers. The revenues of these industries that are generated by the activities of the direct selling industry are called the **'indirect impact'**.

Table 3.1: Distribution of Operating Expenses by Category (as a % of sales)

	%
Advertising	0.25
Travel	0.77
Meals and entertainment	0.20
Special events	1.48
Telecommunication	0.66
Postal and courier	0.88
Vehicle leasing	0.13
Printing and publishing	1.10
Packaging	0.41
Purchasing supplies	3.70
Employee training	0.20
Total expenditure for these categories	**9.78**

Of a total R 3,9-billion expenditure (on a VAT exclusive sales value of R 4.65-billion), 9.78% (R 381,42-million) is contributed to input purchases (as above, indirect impact)

Source: MSA Survey of South African Direct Selling Organisations, 2007

This expenditure figure (R 3.9-billion) represents 83.8% of the total gross annual sales value (R 4.65-billion exclusive VAT). The categories listed here represent almost 10% of total expenditure. The largest expense is the R 1,93-billion (exclusive VAT), or 49.5%, of total expenditure, which is given to direct sellers as compensation. All other costs represent 40.72% of total expenditure.

People involved in direct selling and in 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".**

Additional income from indirect and induced jobs is calculated through an income multiplier of 1.25 (Refer to Appendix E: Technical Instructions/Methodology). Based on a direct income of R 2,614-billion, the income multiplier suggests that an estimated additional R 654-million in South African personal income was created through the direct and induced income impact. This means that the total impact on income of the industry in South Africa is R 3,268-billion.

Similarly, additional revenue from indirect and induced economic activity generates a sales multiplier of 1.32, meaning that for each R 1.00 of direct selling industry revenue, supplier and consumer sales create an additional R 0.32 of sales (Refer to Appendix E: Technical Instructions/Methodology). So, while direct selling companies represent more than R 5,3-billion in gross revenue, R 1.7-billion in indirect sales revenue brings the total impact on sales in South Africa to R 7-billion.

The sum of the direct, indirect and induced impacts is the total economic impact of the direct selling industry. These impacts are summarised in Table 3.2.

Table 3.2: Economic Contributions of Direct Selling

SALES / OUTPUT	**Direct**	**R 5,3-billion**
	Indirect	**R 1,7-billion**
	Total	**R 7,0-billion**
INCOME	**Direct**	**R 2,614-billion**
	Indirect	**R 654-million**
	Total	**R 3,268-billion**

Source: MSA calculations (Refer Appendix E: Technical Instructions/Methodology)

Contributions to the Government: Tax Revenue Collections

The direct selling industry's contributions to jobs, income and investment result in tax collections for the South African government. In 2007 this resulted in an estimated R 588-million in total direct and indirect taxes at the national and local levels of government.

The total direct and indirect tax revenues associated with the direct selling industry in 2007 are summarised in Table 3.3.

Table 3.3: Total Direct and Indirect Taxes Generated by the Direct Selling Industry

(R millions)

Corporate tax	R 90
UIF	R 2
Import duties	R 14
Indirect taxes – VAT	R 440
PAYE/Personal income tax	R 40
Licence fees	R 0.5
Other taxes	R 1.5
TOTAL	**R 588-million**

Extrapolated from: MSA Survey of Direct Selling Organisations

4. The Social Contribution of the South African Direct Selling Industry

Not only does the direct selling industry make a substantial economic contribution to the South African economy, the industry also contributes considerably to the quality of life enjoyed by many South Africans.

While economic contributions are more easily measured, the direct selling companies and direct seller surveys (detailed in Appendix B and Appendix C) also shed light on the social contributions of the industry.

Potential financial benefits, possibilities for entrepreneurship, independence, work schedule flexibility and the opportunity to develop personal business skills are some of the major benefits cited by direct sellers. Support of the communities and company Corporate Social Investment also benefit to quality of life.

These social contributions are not less important than the economic contributions.

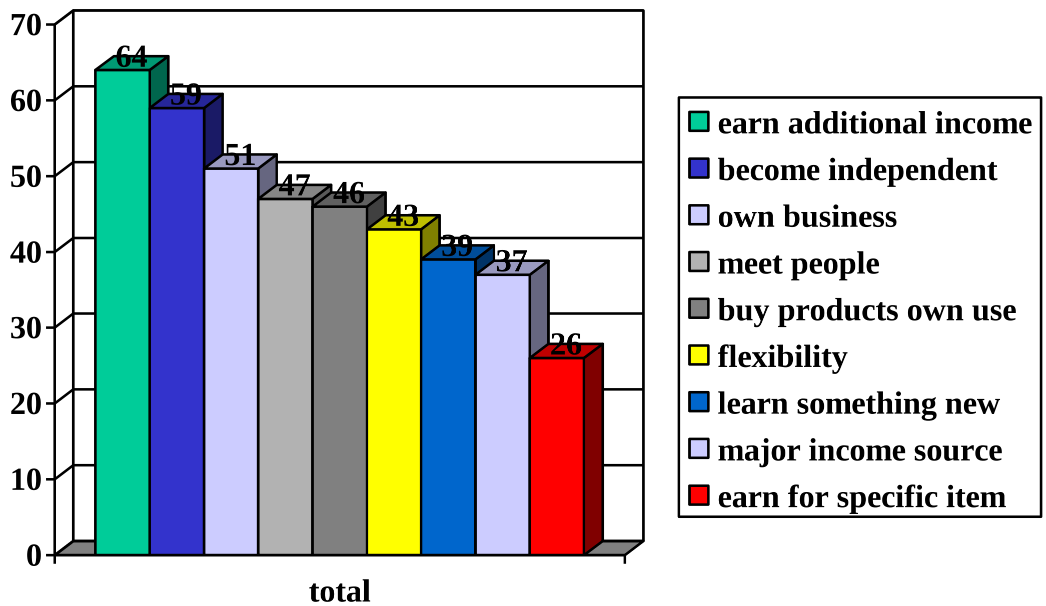
In this section of the report, the focus is on understanding the characteristics, motivations and experiences of individuals involved in direct selling, and the social contributions the direct selling industry makes.

Work experience of direct sellers

Becoming a direct seller enables participants to enter into both a new way of living and working.

Let us first consider why they wish to become a direct seller:

Figure 4.1: Reasons for becoming a direct seller

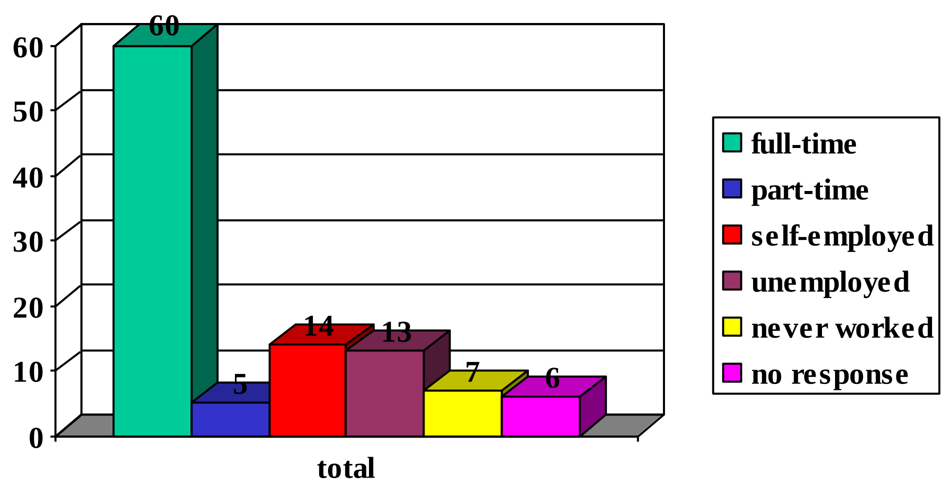


Source: MSA Survey of South African Direct Sellers, 2007

The two primary reasons for becoming a direct seller are “to earn additional income” (64%) (in most cases, this was additional income to their major income stream), followed by the desire to become independent (59%) (Figure 4.1)

As shown in Figure 4.2, before becoming direct sellers almost two-thirds worked full time previously, whilst the balance were self-employed or unemployed (14% and 13% respectively). Only 7 of the respondents indicated that they had never worked before entering the industry.

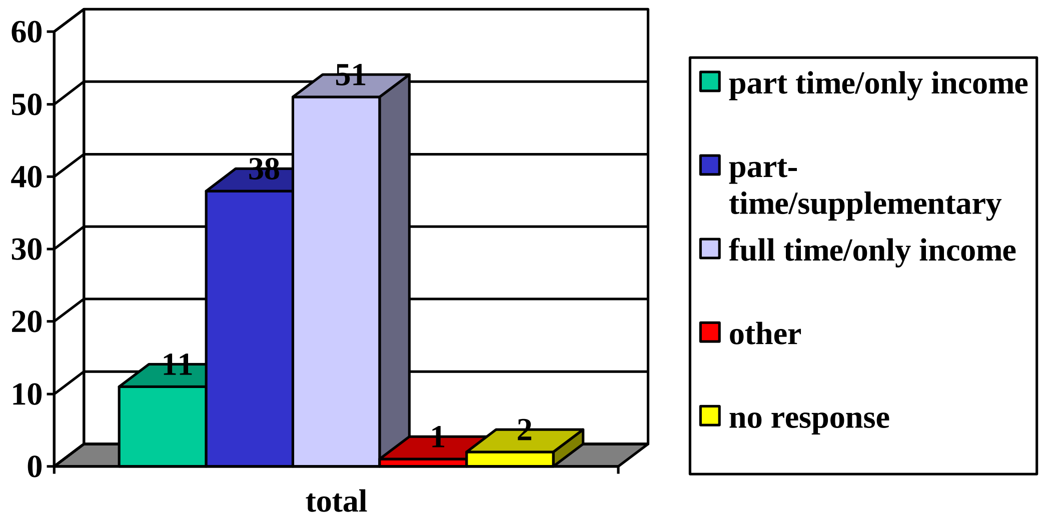
Figure 4.2: Previous work status of direct sellers



Source: MSA Survey of South African Direct Sellers, 2007

Figure 4.3 indicates the importance of direct selling activities in terms of their current income stream:

Figure 4.3: Importance of Direct Selling Activities in Terms of Current Income Stream



Source: MSA Survey of South African Direct Sellers, 2007

Half the sample (51%) indicated that direct selling is their full time work (i.e. only income stream), albeit on a flexible hours basis. Of the respondents, 41% were direct sellers who had been involved in direct selling for more than 10 years (the minimum requirement for completion of the survey was for them to have been involved in direct selling for 12-months +). *This created a leaning towards views, results and opinions of those who have been longer in the industry and who are more senior in experience and earnings*.

Direct Selling also strongly emerged as a part-time activity that supplements their time full income, with 38% of respondents stating this.

Whilst there is some overlapping, 65% of direct sellers have received training from their direct selling company, 48% from their upline manager, and 11% who have received training from an outside (professional) company. Only 9% of direct sellers stated they had received no form of training.

16% of respondents represented more than one direct selling company in the past 12 months and 15% were currently representing more than one direct selling company.

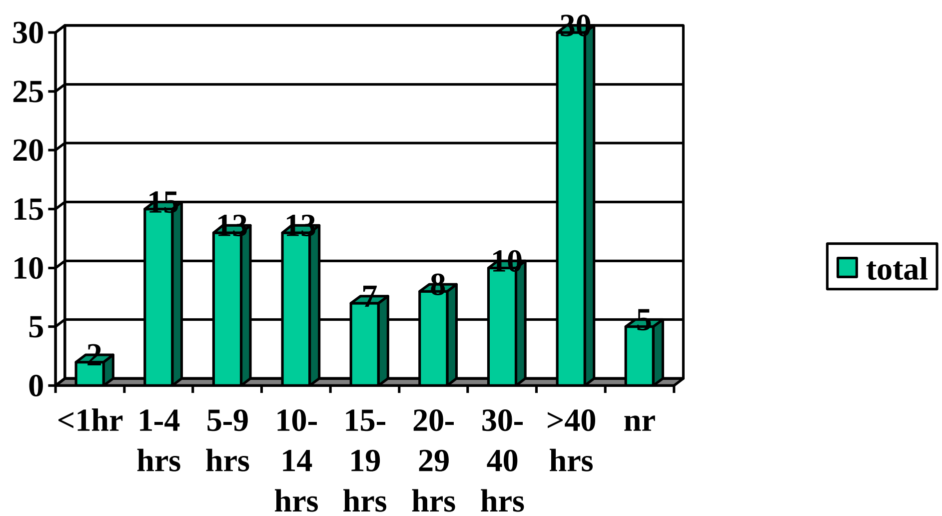
Often, direct sellers work with companies from whom they purchase products for personal consumption In terms of those direct sellers who purchase products for their own use, the aggregate was 17% and, overall, was not higher than 24% in total. Direct sellers may enter the profession to buy products for themselves but the majority of their sales are made to others.

Time devoted to direct selling

A unique feature of the direct selling industry is that it provides a flexible working schedule. 43% of respondents cited “flexibility” as a reason for becoming a direct seller (Figure 4.1) Although generally considered that the majority of direct sellers in South Africa regard direct selling as an additional income source part-time activity (information from DSA SA), it was clear that respondents in this survey had a more mature and well established involvement in direct selling – which may well indicate that this (51% full-time/only income source, Figure 4.1) is not the norm.

This is further illustrated when one considers the amount of time dedicated to direct selling activities (Figure 4.4).

Figure 4.4: Time Devoted to Direct Selling



Source: MSA Survey of South African Direct Sellers, 2007

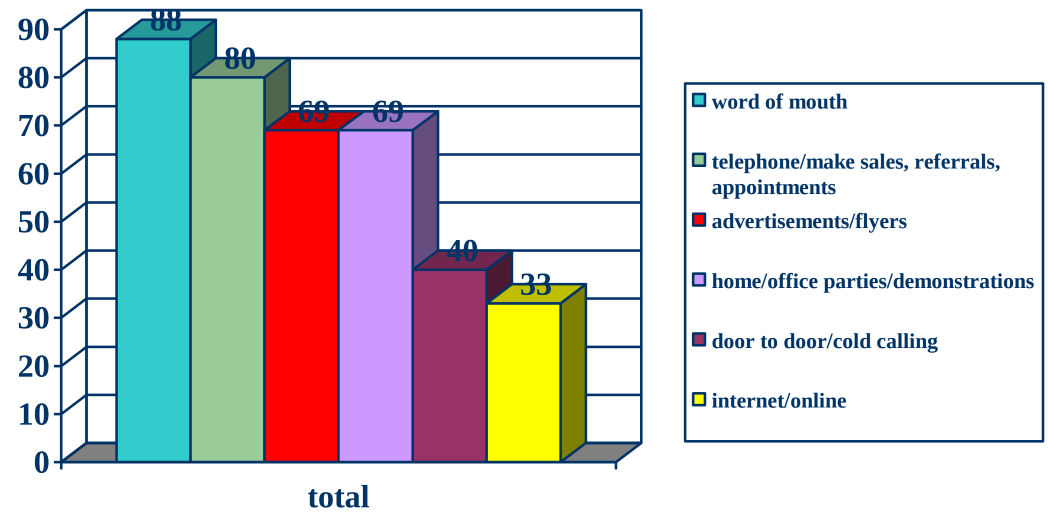
Figure 4.4 illustrates that almost one-third of those surveyed work more than 40 hours per week on their direct selling activities, 48% work less than 20 hours per week, and the aggregate was 22 hours. 92% work on a regular basis throughout the year.

This flexibility 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.

Direct selling approaches

Direct sellers use various approaches to sell their products. Most direct sellers (88%) sell through word of mouth - talking to others using personal connections such as friends, work associates and communities. Other approaches are highlighted in Table 4.1

Table 4.1: Direct Selling Approaches



Source: MSA Survey of South African Direct Sellers, 2007

Other traditional approaches such as telephone, referrals, flyers/advertisements and home parties also find frequent use.

Internet access in South Africa is limited to cities and urban areas, with varying bandwidth availability. Rural areas have poor access. Wireless connectivity and the introduction of more affordable access will likely see the Internet emerge as a more popular tool over time.

Whilst Internet/one line was used as a sales approach by 33% of our respondents, only 29% did so frequently. It should be noted again, that respondents in this survey had a more mature and well-established involvement in direct selling and would more likely have access to the Internet, the majority of direct sellers across the industry would not..

Benefits of direct selling to direct sellers

Nature of the Profession

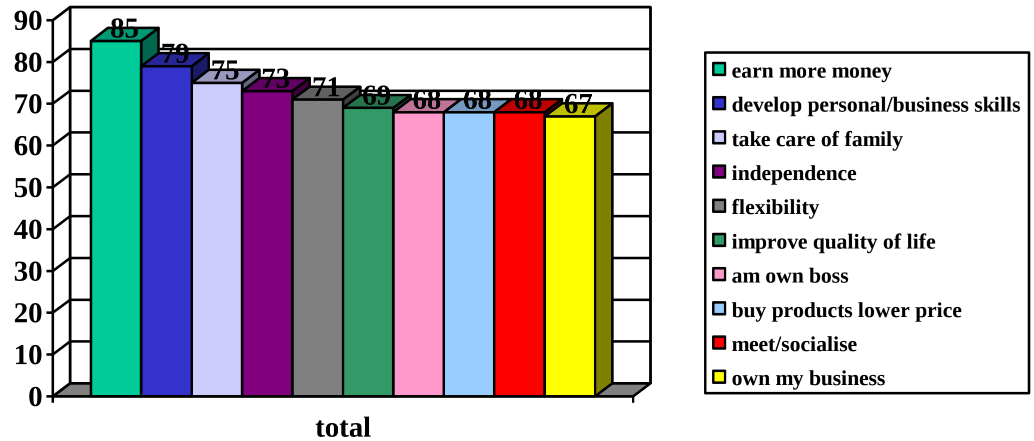
Direct selling draws people from across a broad range of ages, educational backgrounds and professions who are attracted to the potential financial benefits, possibilities for entrepreneurship, independence, work schedule flexibility and the opportunity to develop personal business skills (Refer Table 2.4).

As indicated in Figure 4.1, the two primary reasons for **becoming a direct seller** are "to earn additional income" (64%) (in most cases, this was additional income to their major income stream), followed by the desire to become independent (59%).

It is then interesting to look at what direct sellers, **who are now involved with the industry**, perceive the benefits of direct selling to be to direct sellers (i.e. now they are working in the direct selling industry, what keeps them in the industry).

Range of Benefits

Figure 4.5: Benefits of Being a Direct Seller

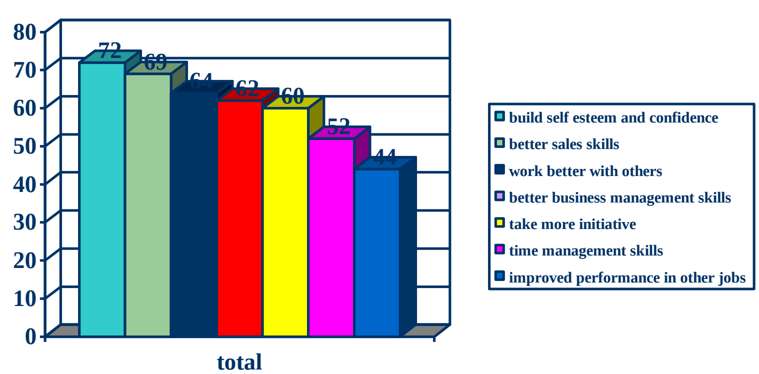


Source: MSA Survey of South African Direct Sellers, 2007

Once involved in direct selling, the main incentive for being a direct seller is to "earn more money" (85%) (Figure 4.5), which is also one of the primary reasons for becoming a direct seller, so this need is satisfied. Independence, the second primary reason for becoming a direct seller, also remains a benefit once involved in direct selling, 73% agreeing that is of benefit to them.

However, there are many other closely associated benefits that also accrue to direct sellers. These range from developing personal/business skills (79%) down to owning their own business (two-thirds of the sample). As direct sellers continue in the profession, they find benefits that may not have been apparent to them when first starting in the business. Whilst earning (more) money was reflected as the major reasons for entering the direct selling industry, there are significant trade-offs when one compares the benefits of being part of this industry sector with the reasons for entering it in the first place. Clearly being a direct seller brought many benefits to the individual and all of these reflect the ability to exert one's independence in one way or another.

Table 4.2: Benefits of being a direct seller: improved professional skills



Source: MSA Survey of South African Direct Sellers, 2007

As reflected in Figure 4.5, 79% of respondents cited the development of personal and business skills as a benefit of being a direct seller. Table 4.2 lists some of the specific skills that direct selling enhances.

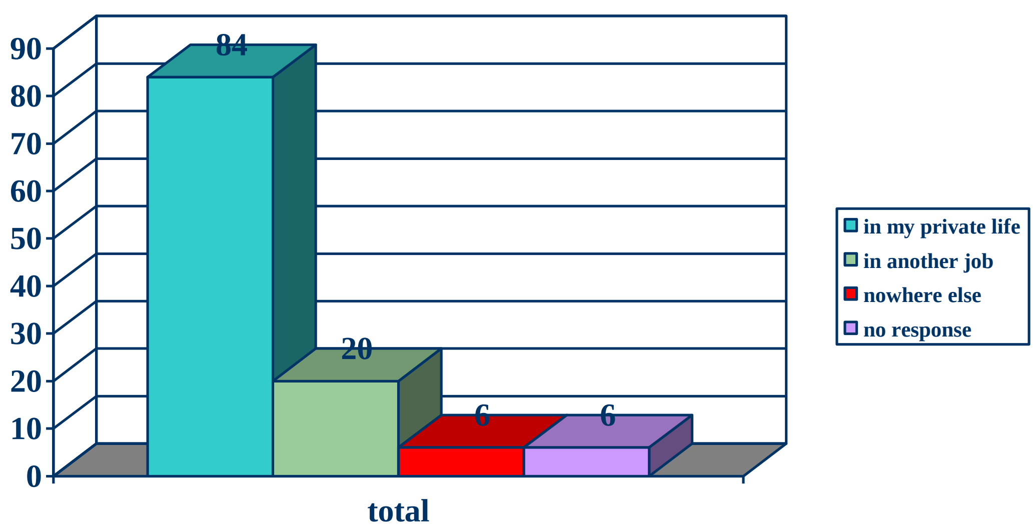
Building self-esteem and confidence is cited by 72% of respondents as being a benefit, followed by the development of better sales skills (69%). Statistically these are on a par with each other.

Working better with others, better business management skills and taking more initiative, are also seen as significant benefits with over 60% of respondents selecting these as being of benefit to them.

The development of time management skills was also important to more than half the sample. The least of these professional benefits was improved performance in other jobs (44%), but still significant.

Because direct selling in South Africa is generally undertaken as a second profession, these skills are important in the professional lives of direct sellers.

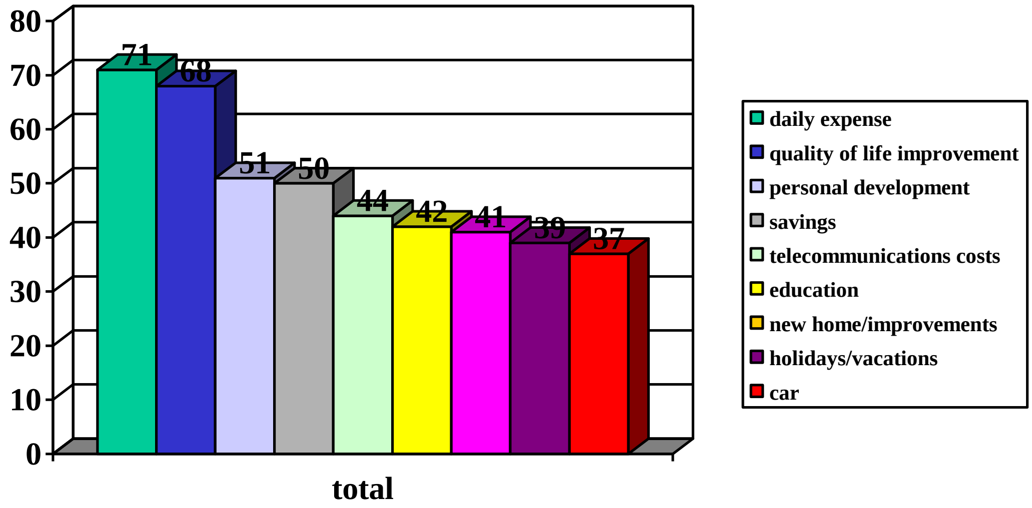
Table 4.3: Benefits of being a direct seller: benefits carried over



Source: MSA Survey of South African Direct Sellers, 2007

Not only did the 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 4.3, 84% of the sample felt that benefits derived from their direct selling activities had carried over into their personal life.

Figure 4.6: Financial benefits of being a direct seller



Source: MSA Survey of South African Direct Sellers, 2007

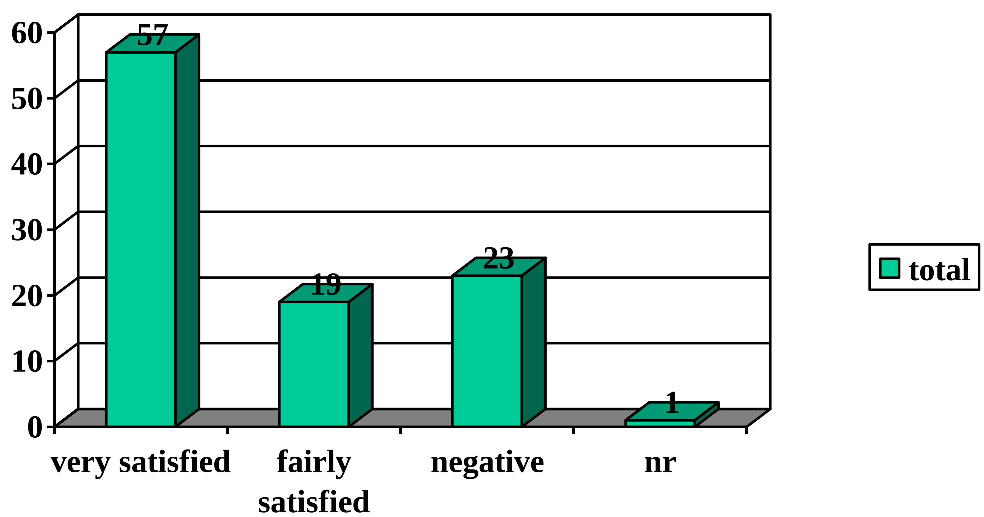
Direct sellers indicated more than one benefit, but they most frequently said they used the money earned from their direct selling activities for daily expenses (71%) and for quality of life improvement (68%).

Satisfaction of direct sellers

The direct sellers indicated that they are generally pleased with their experience in the industry. Figure 4.7 shows that 57% describe themselves as "very satisfied".

According to the DSA member companies surveyed, the average retention rate among direct sellers was 59%.

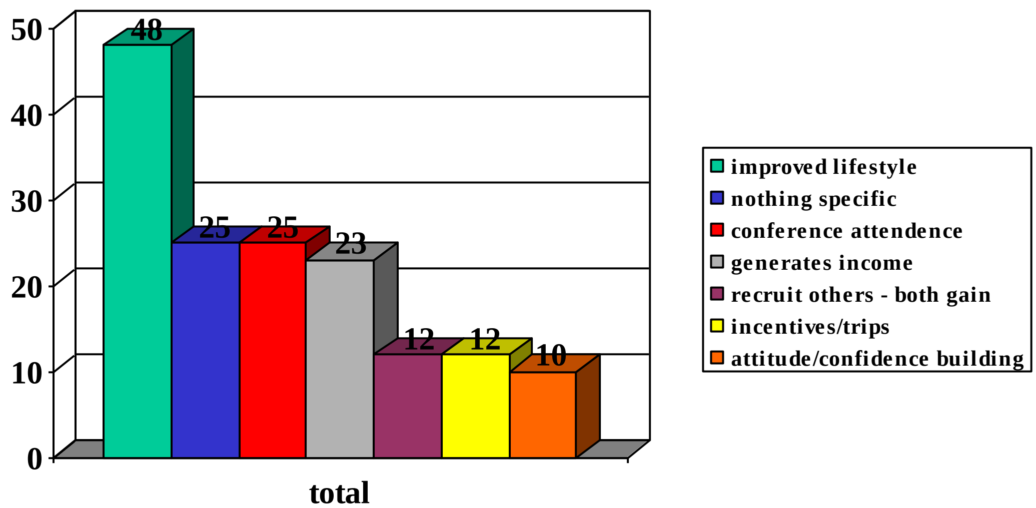
Figure 4.7: Satisfaction of Direct Sellers



Source: MSA Survey of South African Direct Sellers, 2007

This result (Figure 4.7) is completely consistent with the profile of direct sellers portrayed in this study, i.e. mature, well established direct sellers who take this activity seriously.

Figure 4.8: Important things that have happened as a result of involvement in direct selling



Source: MSA Survey of South African Direct Sellers, 2007

This chart (Figure 4.8) continues to express the fact that direct sellers have benefited in terms of lifestyle improvement by being involved in direct selling (improved lifestyle means being able to afford luxuries which are over and above life's necessities, but also includes better education for children, etc). Note also the emphasis on business development (i.e. attending conferences) and recruiting others into the business. It was interesting to see that only 12% mentioned incentives.

Testimonials of direct sellers

This is a select sample of verbatim comments from South African 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".*

Whilst direct sellers have consistently thought in terms of financial gain and therefore improved lifestyle, direct selling involvement has also changed their lives in other ways, as reflected in their responses below:

- *We have made many friends while building our business.*
- *I have become a stronger person emotionally, and I have developed good self-esteem.*
- *I have learnt to have patience and be less judgemental of others.*
- *I have better self-esteem and confidence, and I have more love for my fellow man.*

- *I have gained in self-confidence. I am able to afford things that I could not normally have afforded. I have developed very special friendships with my upline and downline distributors, and also customers. This work has completely changed my life!*

- *Our finances have improved – we are on our way to financial freedom! We have more time, freedom and flexibility. We spend more quality time with our family and friends. We are more positive and proactive (self-reliant, independent) and we have better health and well-being.*

- *I have a greater increased sense of self and I have learned more people skills.*

- *Direct selling like (my company) is helping those who do not have cash up front to buy products, and sell for themselves. This business helps to reduce unemployment.*

- *I have helped others to realise their dreams, like buying cars and for myself, I have achieved my goal of living a better life.*

- *Direct selling knows no boundaries, and does not discriminate – so you have the power to offer the earnings opportunity to anyone and everyone.*

- *Direct selling has made me more aware of how fortunate we are….*

- *It is great to see people improve themselves – women who become independent. They start part time, but are now doing it full time as managers.*

- *I was able to put my kids through school.*

- *My financial independence allowed me the freedom to choose divorce. The personal growth has set me free to heal and discover more about myself.*

- *I have had a few recruits that were down and out. I have been able to see improvement in a lot of areas in their lives – financial, quality and upgrading.*

- *I met my wife, and gained financial freedom.*

- *It helped our marriage. I have become a better person as a friend, husband and employee.*

There are probably few employment choices that affect people as holistically as direct selling. Whilst income generation and improved lifestyle are the outcomes, obviously there are many softer issues underneath which affect the individual's ability to discover themselves in a new way and make a difference in their own lives, and that of others.

Social Benefits of Direct Selling to Society

Contributions from Charitable Giving

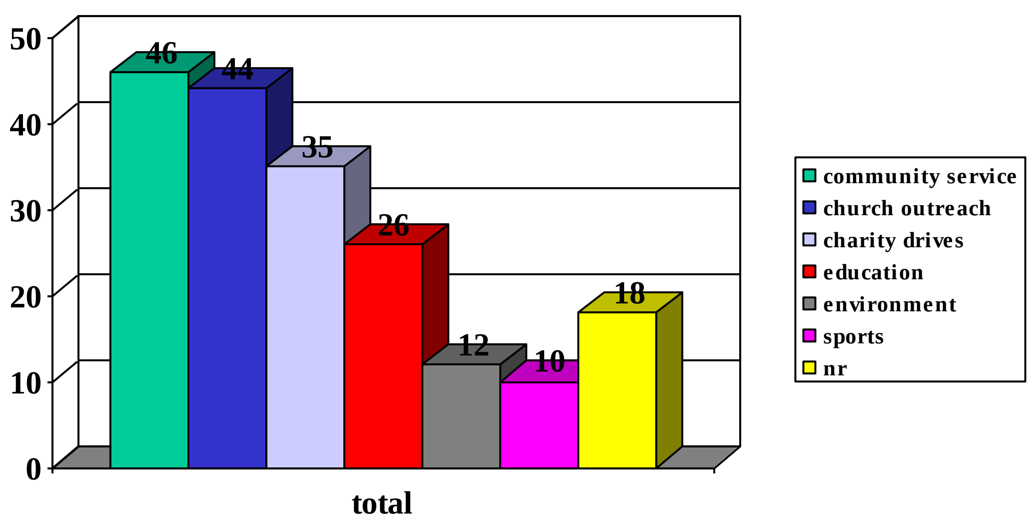
Where it is difficult to give an estimated Rand value to the contributions made by direct selling companies and direct sellers to charitable causes in 2007, 36% of direct selling companies responding to this question indicated that they did contribute money, goods, services and volunteer hours to social programmes.

Each year, the Direct Selling Education Foundation (DSEF) recognises company contributions through the Vision for Tomorrow awards, presented for Corporate Social Investment Programmes. These programmes assist to uplift the communities of South Africa.

A high percentage of these programmes embrace HIV/Aids. South Africa has one of the highest HIV/Aids infection rates in the world and many activities are directed to this need, especially where it involves infected children and the many orphans left in the wake of the pandemic, and children left vulnerable to abuse.

In addition, direct seller respondents also said they contributed to community services and charities (Figure 4.9): 46% cited involvement with community service; 44% with church outreach; 35% with charity drives; and 26% assisting with educational needs.

Figure 4.9: Social benefits of direct selling to society



Source: MSA Survey of South African Direct Sellers, 2007

Contribution is in the form of active support with voluntary hours and supply of services, as well as financial support.

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. This is especially true in the rural areas of South Africa, which sprawl across large geographic locations, as well some regional city suburbs. Direct selling increases access to retail markets in these areas, generally under-served by traditional retail channels.

In addition, direct selling serves the older consumer, some who may no longer find it convenient to visit local stores and retail outlets and prefer the ease of direct selling. 34% of direct selling consumers live in rural areas and 24% of direct selling consumers are age 50 or older. Direct selling provides these consumers with access to additional goods they might not otherwise be able to find.

Africa has massive unemployment. The formal sector is not able to provide sufficient employment opportunities. However, it is also a massive consumer market with an underlying entrepreneurial spirit that is ideally suited to direct selling. Africa has been earmarked by the G8 as a priority worldwide, but with an emphasis of helping its people become self-reliant, and developing income opportunities and employment, not just giving handouts.

Direct Selling in Africa is directly influencing many lives providing a positive alternative to working in the formal sector and tapping into the African entrepreneurial spirit.

Conclusion

This is a very positive result in terms of direct selling in South Africa. The industry provides much-needed employment, many of who are finding these opportunities for the first time (e.g. historically disadvantaged people, older people, etc.). Once again, it must be emphasised that this study attracted response primarily from direct sellers that are relatively well entrenched in their activities – i.e. those who regard it as their main income stream. The industry is, of course, also significant in terms of those who are attracted to it as a means of earning supplementary income.

The industry – in terms of its members – is clearly professional in terms of the manner in which it supports its direct sellers, for example, the amount of training which is invested in, and the strong degree of satisfaction of direct sellers with their principal companies.

5. Consumer Responses to the South African Direct Selling Industry

In South Africa a consumer study was also undertaken. Although this does not have a direct link with a socio-economic impact study, it does however, provide insight into how consumers view direct selling. Without purchasers of products, there would be no industry. A separate report will be made available, but the following are a few of the insights.

- The demographic profile is very similar to that of direct sellers themselves - indicating that direct sellers are not moving much out of their comfort zones to find clients (Refer Figures 4.10 – 4.12). This is also borne out by the relatively low readings in terms of devices direct sellers use to grow their business.

- Non-purchasers of products (but approached and seriously considered) were mixed in their views of whether they would be prepared to purchase from a direct seller in the future – 57% would/might do so, 43% were neutral or negative in this respect. Where positive, it would depend on: the product sold, convenience of the direct seller coming to the client, and good quality products (the main reasons). Neutral/negative reasons were a preference for a retail/formal store, depends on product sold, and a perception that the products are expensive. (Thematic in this response was the fact that direct selling should be cheaper since the "middleman" is cut out).

- Purchasers from direct selling companies broadly responded in terms of whether they are a regular purchaser. 35% said definitely so and 60% positive overall, 40% were neutral/negative in this regard. Where positive, products were considered good quality and a wide range was available. (Also thematic throughout the research was the appeal of special offers, etc). Where neutral/negative, these were products they buy only as needed, or had had fleeting experience of this. (Also relatively thematic was the fact that direct sellers don't necessarily follow up or the purchaser does not know where to make contact with them).

- Purchasers generally felt loyal to companies they purchased from – 41% definitely so, and two-thirds of the purchaser base overall.

- 29% claimed to be aware of MLM or network marketing and the differences between MLM and direct selling, but, when probed, the MLM perception was that MLM are pyramid schemes/scam operations (47%), direct sellers are face to face selling (42%), and 21% felt there was no difference – just a different terminology.

- Criteria influences towards a direct selling company as a choice are affordability (36%), and good quality products (33%).

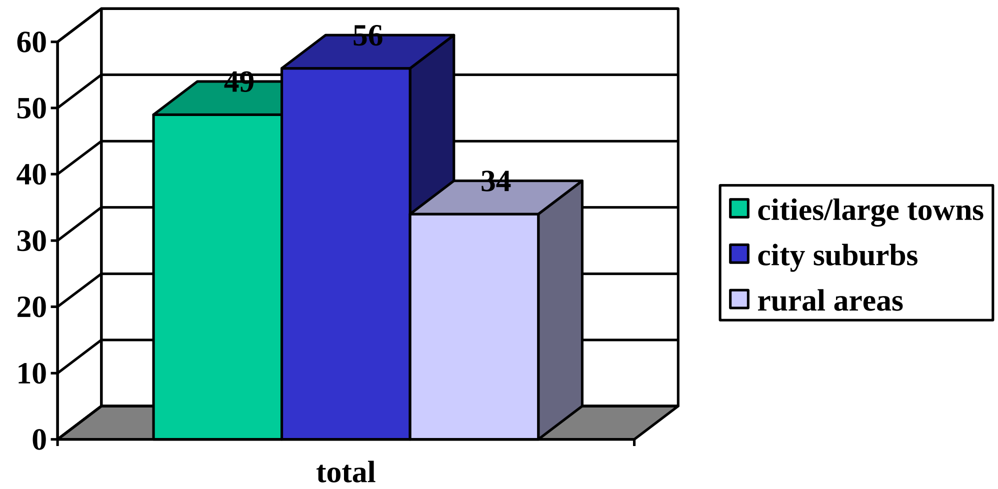
- Perceived major advantages of direct selling companies are convenience of home delivery (don't need to go to the shops to buy) (50%), whereas perceived disadvantages are expensive (20%), slow deliveries – wait long time (19%), nothing in particular (18%).

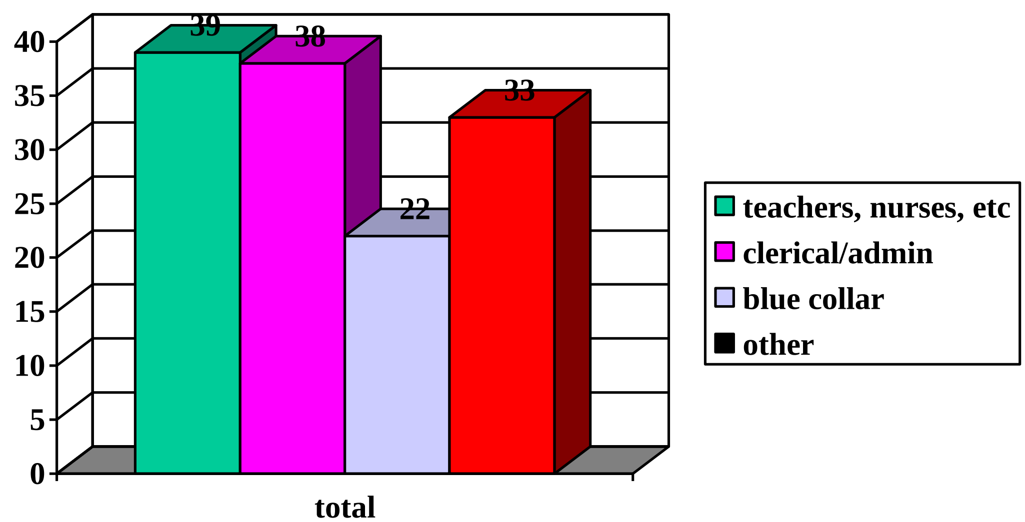
- Given a choice of similar products available from retail stores or direct selling companies, 43% would prefer a retail store, 24% prefer direct selling, and 26% felt it was immaterial. Where retail stores are preferred, this was because you can see/demonstrate the product, wider range availability, immediate availability of product (take it home).

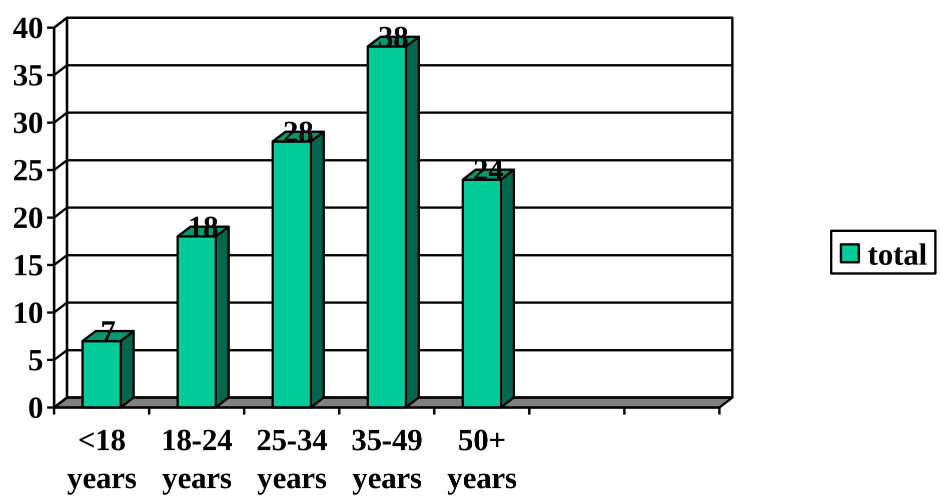
- Primary issues that would make one feel satisfied to deal with a direct selling company was good quality products (28%), guaranteed products (22%), special offers/promotions (20%), and affordability (19%).

Figures 4.10 – 4.12: Consumer Profiles

In several ways, the consumer profiles tended to be very similar to the profile of the direct sellers themselves.







Source: MSA Survey of South African Consumers, 2007