

QUANTITATIVE ECONOMICS  
& STATISTICS

# The Social and Economic Contributions from Direct Selling -- Insight from Russia

**2004 Socio-Economic Contribution Study**  
October 2005



*World Federation of  
Direct Selling Associations*



**МЫ РАБОТАЕМ  
С ЛЮДЬМИ И ДЛЯ ЛЮДЕЙ**

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## Executive Summary

Direct selling in Russia provides significant economic and social contributions to Russian families and to the country as a whole. This report highlights the many contributions of the direct selling industry to Russia, based on two new surveys, one of direct selling companies and a second of individual direct sellers. This report was commissioned jointly by the Direct Selling Association [Russia] (RDSA) 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, 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 Russian households.

### The Russian Direct Selling Industry

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

The direct selling industry in Russia is comprised of more than 35 companies, with total sales revenue of 36.5 billion RUB in 2004 (unless stated otherwise all currency in this report are stated in Russian rubles [RUB] – the average 2004 conversion rate was 1RUB = .035 US\$). The industry includes a number of global companies with household names, such as Amway, Avon, Herbalife, Mary Kay, Oriflame and Tupperware. There are also a number of Russia-based companies, including Faberlic. The direct selling industry accounts for 0.8 percent of total retail sales in Russia (Figure II.1). In 2004, there were approximately 2.3 million Russian workers associated with the direct selling industry: most of these are direct sellers who received compensation (commission, overrides or bonuses) from direct selling companies (Table II.2).

Direct selling is a growing industry in Russia. Sales have increased by nearly 380 percent over the past three years, from RUB 7.6 billion in 2001 to RUB 36.5 billion in 2004 (Figure II.2). At the same time, direct sellers face some unique challenges in their direct selling activities. “Not enough clients” and “biases of general public against direct selling” are the top two challenges direct sellers cited (Table IV.4).

Direct selling offers a wide variety of products, ranging from food to services, but selling in Russia was mainly concentrated in personal care products (RUB 35,896 million of sales). Other products include health products (RUB 509 million) and service products (RUB 20 million) (Table II.3).

More than 95 percent of direct sellers are women, most of whom are married. 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. This leads to improved earning power and quality of life for Russian families (Table II.4).

### **Economic Contributions of the Direct Selling Industry in Russia**

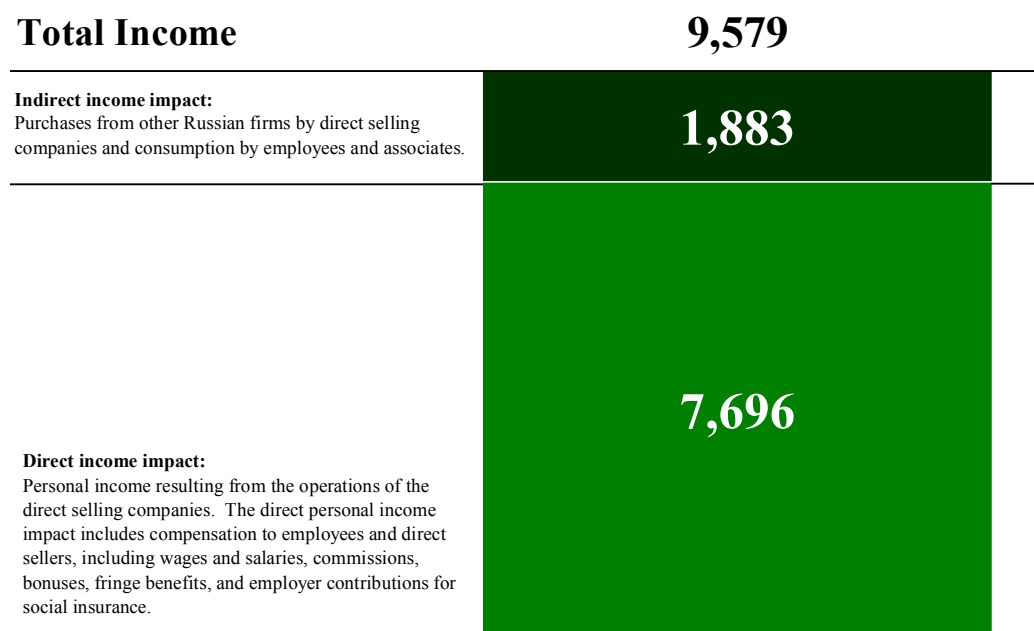
Direct selling contributes significantly to the Russian economy both financially and in terms of quality of life. The average annual compensation of self-employed direct sellers in 2004 was RUB 3,043; the average earnings of employees of direct selling organizations were RUB 215,716 (see page 9). These earnings, while important, represent only a portion of the economic and social contribution the industry makes to the Russian economy.

As described above, over 2.3 million Russians were associated with the direct selling industry in 2004. The industry's associated labor pool includes 3,160 permanent employees and 2.3 million direct sellers. The combined labor force earned an estimated RUB 7.7 billion through their association or employment with the direct selling industry in 2004. Total labor compensation, including over RUB 680 million in wages paid to permanent employees and RUB 7.0 billion of commissions and bonuses awarded to direct sellers, represents a significant direct economic impact of the industry's activity in Russia (Table III.2).

The direct selling industry contributes to Russian employment in two additional ways. First, the industry buys products and services from other Russian companies (suppliers), supporting additional Russian 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 contribution".

Based on our analysis of the income multiplier for the Russian direct selling industry, Ernst & Young estimates that RUB 1.9 billion in Russian 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 Russian Direct Selling Industry, 2004 (RUB millions)**



### **Fiscal Contributions of the Direct Selling Industry in Russia**

The direct selling industry's contributions to jobs, income, investment and research and development also result in tax collections for the Russian government. The direct selling organizations, their employees and direct sellers are estimated to pay RUB 7.2 billion in tax payments. Indirect economic impacts from supplier purchases and consumer purchases generate over RUB 765 million in taxes. The combined contribution of additional tax payments resulting from indirect and induced employment, investment, and research and development activity is estimated to be RUB 8.0 billion in 2004 (Table III.3).

### **Social Contributions of the Direct Selling Industry to Russia**

The direct selling industry makes a substantial economic contribution to the Russian economy. While economic contributions are more easily measured, the industry also contributes considerably to the quality of life enjoyed by many Russians. The survey of direct sellers sheds light on the social contributions of the industry. Potential financial benefits, 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, 48 percent cited “I am my own boss” as a benefit; 34 percent cited “Having independence”; and 31 percent cited the ability to ‘Own my own business’ (Figure IV.5).

#### *Development of Increased Personal Business Skills*

A significant percentage of direct sellers listed personal skills development that they attribute to their participation in direct selling. Eighty one percent said they work better with others; 78 percent said their sales skills have improved through their direct selling experience; and 67 percent have built self-esteem and confidence through their direct selling experience (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. Forty eight percent described themselves as either “somewhat satisfied” or “very satisfied” with direct selling activities (Figure IV.8). Particularly, about 40 percent direct sellers cited ‘I can directly relate my rewards to my effort’ as a benefit (Figure IV.5).

### ***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. Nine percent of direct selling consumers live in rural areas while 16 percent of direct selling customers 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*

Direct selling organizations gave an estimated RUB 4.0 million to charitable causes in 2004. When asked if they contribute any money, goods or services to social programs 71 percent of direct seller respondents said they contributed to human services and charities, and 27 percent of respondents contributed to education (Figure IV.9).

## **Conclusion**

The direct selling industry in Russia is a growing, vibrant part of the Russian economy and community. Its contributions to Russian families and the Russian 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:

*I started reading more, setting goals for myself and achieving these goals.... Now I know for sure that there's nothing I cannot achieve. Everything depends on me. At my (primary) work people say that when they look at me they want to live again. It is true because, probably, I just love the whole world, my family, my clients and it just makes you want to live, love and dream! I thank my company for this and my sponsor. Now I can give beauty to the people and nothing could be better than this!*

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## I. Introduction

### Purpose and Scope of Study

Ernst & Young was commissioned jointly by the Direct Selling Association [Russia] (RDSA) and the World Federation of Direct Selling Associations (WFDSA) to conduct a study of the socio-economic impact of the direct selling industry in Russia. The objective of this study is to present the direct and indirect social and economic impact of the Russia 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. All 9 member companies of the RDSA received a survey questionnaire asking about matters such as sales, organization, investment, and charitable activity. Seven company surveys were returned for a 77.8 percent response rate – these respondents represent 85.7 percent of DSA revenues. A random sample of 1,724 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 256 direct seller surveys completed and returned for a 14.8 percent response. Of these, 189 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 Russian input-output tables, developed by Minnesota IMPLAN Group, Inc. was used 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 Russia. *Unless stated otherwise, all currency in this report is reported in Russian rubles (RUB).* The 2004 average exchange rate was 1 RUB = .035 US\$.

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 or supplementary income source for Russian households.

The direct selling industry in Russia 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 Russian economy and society.

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

WFDSA's code of conduct defines direct selling as:

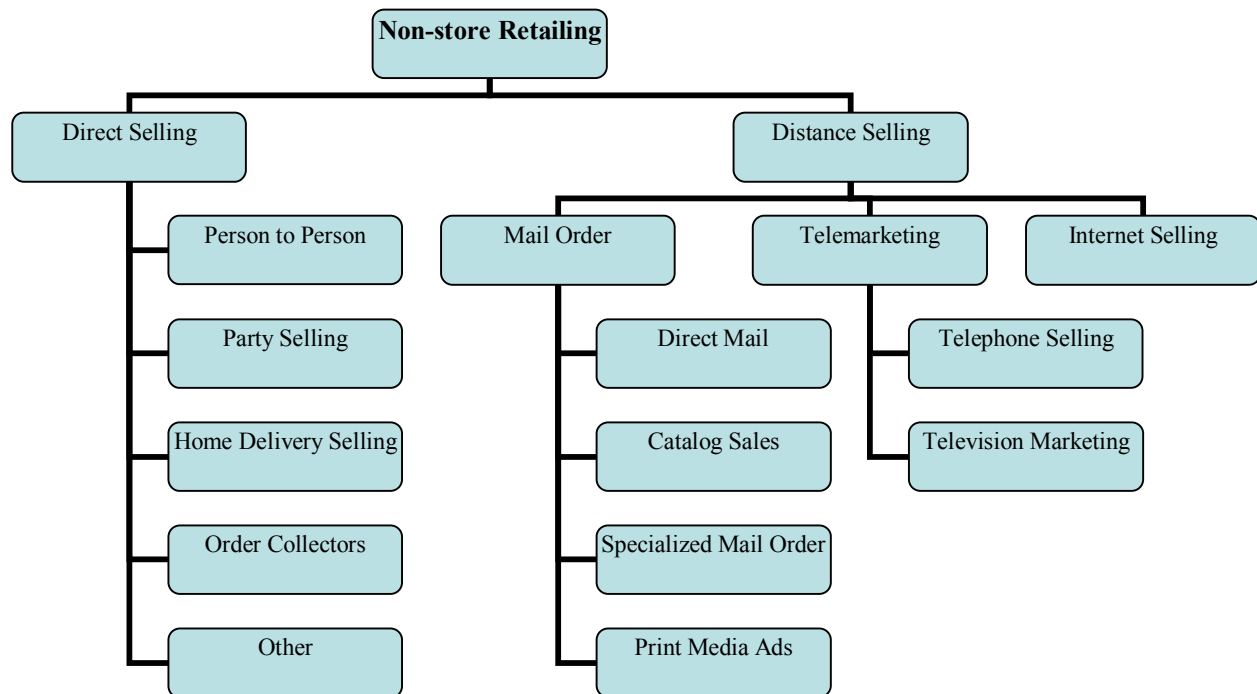
the marketing of consumer products directly to consumers generally in their homes or the homes of others, at their workplace and other places away from permanent retail locations, usually through explanation or demonstration of the products by a Direct Seller.

Direct selling is a part of "non-store retailing", or retailing that takes 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 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.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 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 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. Most of Russia's direct sales organizations (86 percent of those surveyed) are structured for multi-level compensation.

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 Russia based on the two surveys described above. An overview of the Russian 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 Russian population. The appendices contain information regarding data sources and methodological descriptions.

## II. The Russian Direct Selling Industry

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

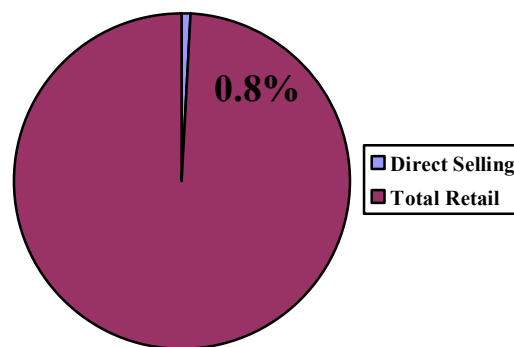
### Size of the Industry

As of 2004, there were more than 35 direct selling companies in Russia. The industry includes a number of global companies with household names, such as Amway, Avon, Herbalife, Mary Kay, Oriflame and Tupperware. There are also a number of Russia-based companies, including Faberlic.

Based on currently available information RDSA members account for 98 percent of total direct selling revenues in Russia. The direct selling industry is relatively new in Russia. Of the companies responding to the survey, Oriflame had been in the direct selling business the longest in Russia – 13 years. The average direct selling company has been operating in Russia for nine years. There is a list of RDSA members in Appendix A.

Direct selling industry revenues in Russia totaled RUB 36.5 billion in 2004. With retail sales totaling RUB 4.8 trillion in Russia, direct selling represents a 0.8 percent share of the total retail market (Figure II.1).

**Figure II.1: Direct Selling Share of Retail Sales**



Source: Russia Retail Sales derived from Euromonitor,  
Direct Selling Revenues from WFDSA

Over 2.3 million Russians were associated with the direct selling industry as of 2004. In 2004, it had a sales penetration rate of 62.2 – there is one direct seller for every 62.2 people in Russia. This is comparable to countries like Mexico and Japan, as shown in Table II.1.

**Table II.1: Direct Sales Penetration Rates – Selected Countries, 2004**  
(thousands)

Country	Population	Direct Sellers	Penetration Rate
Russia	143,420	2,305	62.2
Japan	127,620	2,000	63.8
Mexico	104,900	1,850	56.7

Source: WFDSA

As stated above, Russia has 2.3 million people associated with the direct selling industry. Table II.2 has data on the size of the Russia direct selling industry relative to the Russian population as a whole.

**Table II.2: Russia Population and Employment Data, 2004**  
(millions)

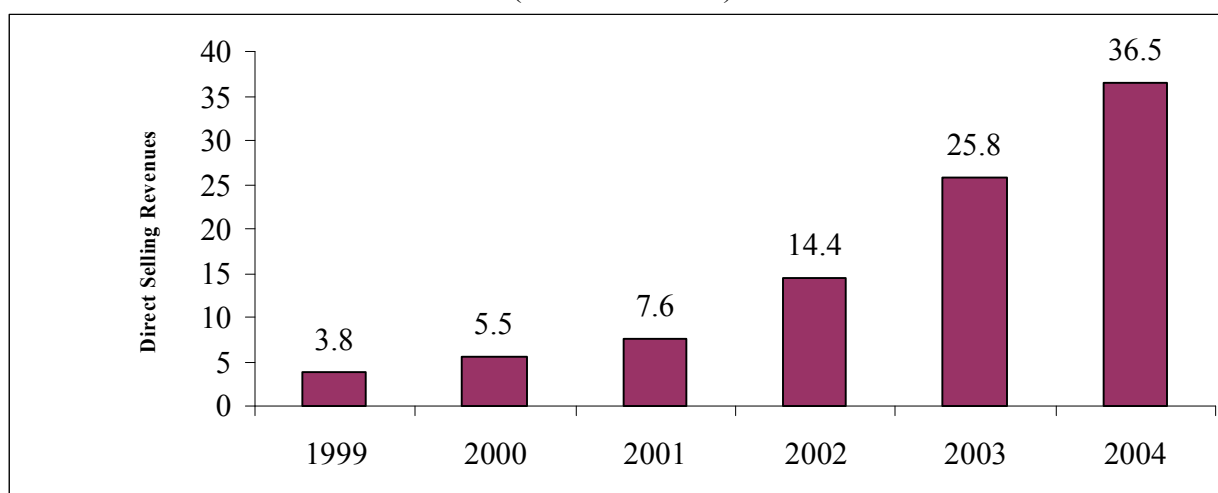
Category	Population
Total Population	143.4
Total Population 15 years or older	122.5
Total Labor Force	71.8
Total Employed	65.1
Total Direct Sellers Receiving Compensation	2.3

Source: Macroeconomic Data from CIA Factbook,  
Direct Selling data from WFDSA and RDSA

### Growth of the Industry

Figure II.2 shows the recent growth trends in the Russia direct selling revenues. Growth in the past three years has been exceptional, from RUB 7.6 billion in 2001 to RUB 36.5 billion in 2004 – nearly a 380 percent increase.

**Figure II.2: Russia Direct Selling Industry Revenue Growth**  
(RUB in billions)



Source: WFDSA and RDSA

## Breadth of the Industry

Direct selling organizations sell a wide variety of consumer products and services. Table II.3 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.3: Direct Selling Product Categories and Associated Revenues**  
(RUB in millions)

Product Categories	Revenues	Percent of Revenues
Personal Care Products	35,896	98.3
Health Products	509	1.4
Service Products	20	0.1
Other	99	0.3
<b>Total</b>	<b>36,525</b>	<b>100%</b>

Source: E&Y Survey of Russian Direct Selling Organizations, 2005

In the Russia direct selling industry, the primary category of product sales is personal care products (RUB 35,896 million of sales), followed by health products (RUB 509 million) and other products (RUB 99 million).

## 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.4, direct sellers have a high concentration (95 percent) of women. Most direct sellers are married (63 percent) with a slightly higher concentration of married couples in direct selling than in the general populace (58 percent of the 2004 Russian population sixteen years and older was married<sup>1</sup>). The industry has been successful in reaching out to women and families, who often strive for more flexible work arrangements.

Three percent of direct sellers have some kind of disability. Ten percent are age 50 or above.

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 Russian families.

<sup>1</sup> 2002 All-Russia Census of Enumeration, Federal State Statistics Service

**Table II.4: Characteristics of Direct Sellers**

<b>Demographics</b>	<b>Category</b>	<b>Percent of Respondents</b>
Gender	Male	5
	Female	95
Age	Under 18	1
	18 - 34	46
	35 - 49	42
	50 - 64	10
	> 64	0
Marital Status	Single, never married	23
	Married / Co-habitant	63
	Divorced/Widow	14
Total # in Household	Two or less	32
	Three	30
	Four	26
	Five	7
	Six or more	5
Area of living	Urban	89
	Suburban	4
	Rural	7
Education	Below high school	1
	High school graduate	7
	Some College/Associate	29
	College degree	11
	Graduate degree, i.e., Masters, Ph.D.	50
	Professional degree, i.e., MBA, MD	2

Source: E&Y Survey of Russian Direct Sellers, 2005



### **III. The Economic and Fiscal Contribution of the Russia 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 Russian 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 Russian economy.

The sources of all data in this section are:

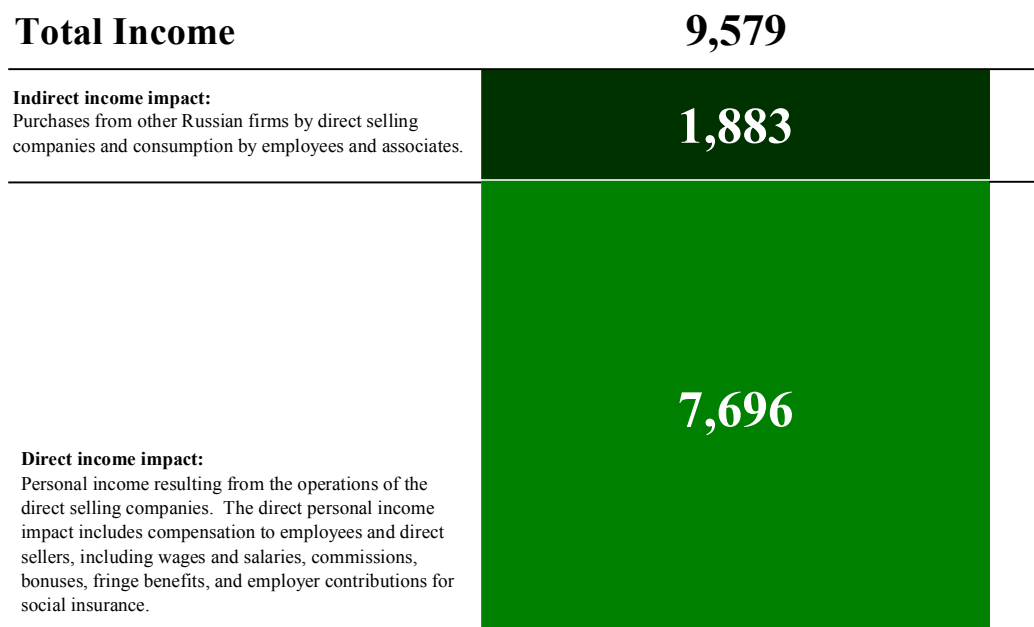
- The Ernst & Young survey of direct selling organizations in Russia (see Appendix B),
- Russia Direct Selling Sales from Euromonitor, and
- Ernst & Young economic modeling (see Appendix D).

#### **Direct Economic Contribution of Direct Selling Organizations**

In 2004, the direct selling industry revenue grew to approximately RUB 36.5 billion. Direct selling organizations paid commissions, bonuses and overrides of RUB 7.0 billion in 2004 to their 2.3 million direct sellers, for an average annual direct seller compensation of RUB 3,043. In addition, direct selling organization's employees, involved in administration, production, logistics and research and development earned an estimated RUB 681 million in 2004, for an average salary of nearly RUB 215,700.

Direct sellers, direct selling organizations, and their employees earned an estimated RUB 7.7 billion in wages, salaries, and non-wage compensation (including fringe benefits, retained earnings, interest, and dividends) from the direct selling industry in 2004. These earnings represent the "direct" income impact of the direct selling industry.

**Figure III.1: Total Personal Income Contribution of the Russian Direct Selling Industry, 2004**



(RUB in millions)

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 Russian employment in two ways. First, the industry buys products and services from other Russian companies (suppliers), supporting additional Russian 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 income contributions.

Direct selling companies create economic activity in non-direct selling companies, such as product manufacturers and advertising firms. Table III.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 III.1: Distribution of Operating Expenses by Category**

Category	Percent
Postal & Courier Services	17%
Advertising	16%
Special events	3%
Corporate Travel	2%
Printing & Publishing	2%
Packaging	2%
Telecommunications	2%
Meals & Entertainment	1%
Field Travel	0%
Vehicle Leasing	0%
Other	55%
<b>Total</b>	<b>100%</b>

Source: Unweighted results from E&Y Survey of Russian Direct Selling Organizations, 2005

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 1.25. Based on a direct income of RUB 7.7 billion, the income multiplier suggests an estimated additional RUB \$1.8 million in Russian personal income was created through the indirect and induced income impact. This means that the total impact on income of the industry in Russia is RUB 9.6 billion.

Similarly, additional revenue from indirect and induced economic activity generates a sales *multiplier* of 1.32, meaning that for each RUB 1.00 of direct selling industry revenue, supplier and consumer sales create an additional RUB 0.32 of sales. So, while direct selling companies represent more than RUB 36.5 billion in gross revenue, RUB 11.7 billion in indirect sales revenue brings the total impact on sales in Russia to RUB 48.2 billion.

As noted previously, 2.3 million people earned compensation in the direct selling industry – whether as direct employees or self-employed direct sellers. The purchases of direct selling organizations and the spending of their employees and direct sellers generated an additional 28,700 jobs in addition to the direct job impact.

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.2.

**Table III.2: Economic Contributions of Direct Selling**

<b>Sales/Output (RUB millions)</b>	Direct	\$36,525
	Indirect	\$11,689
	Total	\$48,214
<b>Income (RUB millions)</b>	Direct	\$7,696
	Indirect	\$1,883
	Total	\$9,579
<b>Employment</b>	Direct	2,308,477
	Indirect	28,726
	Total	2,337,203

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 tax collections for the Russian government. As shown in Table III.3, the sales and economic activity generated by the direct selling industry resulted in an estimated RUB 7.97 billion in total direct and indirect taxes at the national and local levels of government in 2004.

**Table III.3: Taxes Generated by the Direct Selling Industry**  
(RUB in millions)

Type of Tax	Direct	Indirect and Induced	Total Taxes
Total Taxes	RUB 7,202	RUB 765	RUB 7,968

Source: E&Y calculations

The tax revenues associated with the direct selling industry in 2004 are summarized in Table III.4.

**Table III.4: Total Taxes Generated by the Direct Selling Industry**  
(RUB in millions)

VAT	\$3,119
Corporate Income Tax	\$1,393
Personal Income Tax	\$1,002
Other Taxes	\$2,453
<b>Total Taxes</b>	<b>\$7,968</b>

Source: E&Y calculations

## IV. The Social Contribution of the Russia Direct Selling Industry

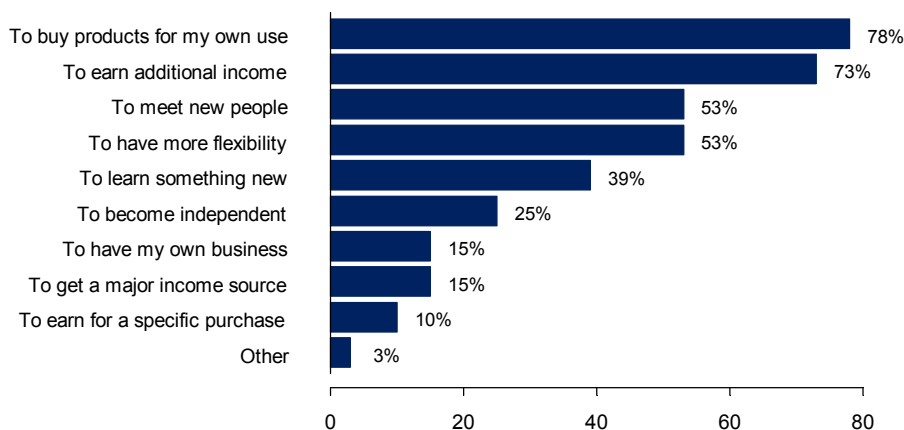
The direct selling industry makes a substantial financial contribution to the Russian economy. While economic contributions are more easily measured, the industry also contributes considerably to the quality of life enjoyed by many Russians. The survey of direct sellers (detailed in Appendix C) sheds 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 buy products for my own use” (78 percent) and “to earn additional income” (73 percent) (Figure IV.1). The profile of a Russian direct seller is generally a group attracted to the profession by the products it offers and the chance to participate in a line of work that supplements their current vocation.

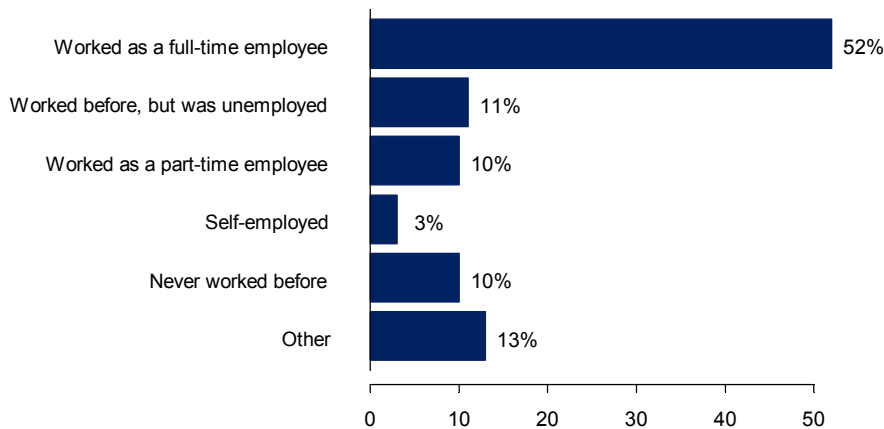
**Figure IV.1: Reasons for Becoming a Direct Seller**



Source: E&Y Survey of Russian Direct Sellers, 2005

As shown in Figure IV.2, before becoming direct sellers, 52 percent of respondents worked as a full-time employee. Only 10 of the respondents indicated that they had never worked before entering the industry.

**Figure IV.2: Previous Work Status of Direct Sellers**

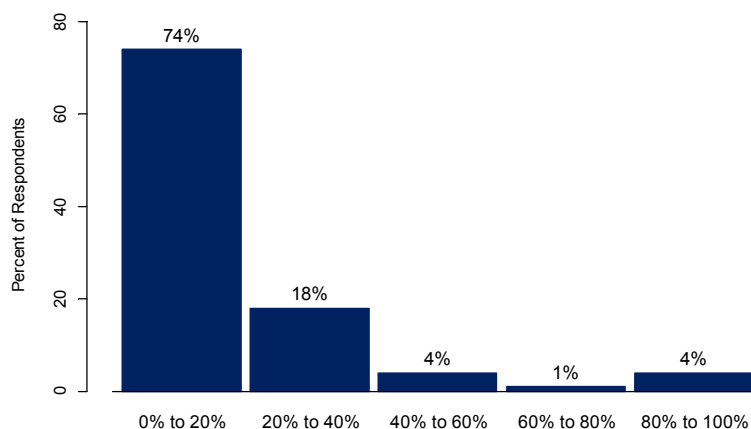


Source: E&Y Survey of Russian Direct Sellers, 2005

Most direct sellers have received some form of training (61 percent). About 44 percent of the direct sellers received their training from the direct selling companies, and 27 percent of them received the training from their up-line direct sellers.

About 28 percent of direct sellers represented more than one direct selling company at the same time during the past two years. Often, direct sellers work with companies from whom they purchase products for personal consumption. Still, the survey respondents are very serious about direct selling as a business opportunity. The majority (74 percent) of respondents reported retail sales for personal consumption of 20 percent or less (Figure IV.3). Direct sellers may enter the profession to buy products for themselves but the majority of their sales are made to others.

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



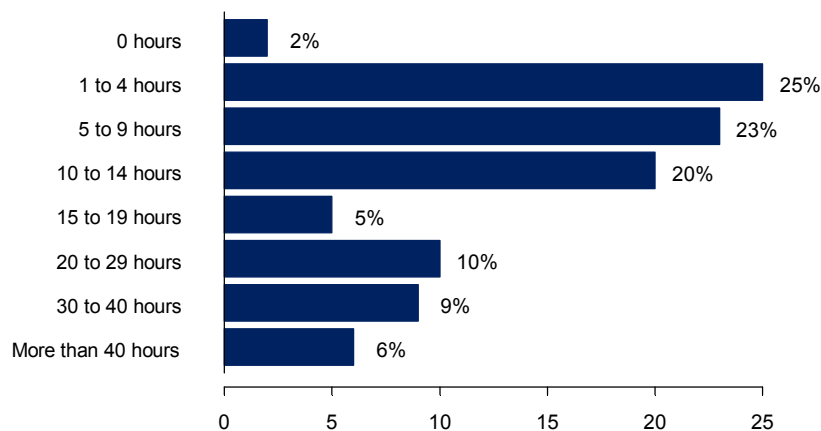
Source: E&Y Survey of Russian Direct Sellers, 2005

## 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 in Russia (61 percent) regard direct selling as an additional, part-time activity – only 15 percent regard it as a full-time activity. Seventy five percent of direct sellers report working less than 20 hours per week, and 50 percent work less than 10 hours. Most direct sellers may work throughout the year – 93 percent work seven to twelve months.

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. Also, it appears that many Russian direct sellers work in the profession as a supplement to their full time professions.

**Figure IV.4: Time Devoted to Direct Selling**



Source: E&Y Survey of Russian Direct Sellers, 2005

## Direct Selling Approaches

Direct sellers use various approaches to sell their products. Most direct sellers sell directly to friends or use contacts provided by friends (99 percent, Table IV.1). Other traditional approaches, such as telephone, flyers and home parties also find frequent use.

The Internet also is used in direct selling, with about 17 percent of direct sellers indicating use of the Internet or websites as a sales approach, and 12 percent indicating use of Email. Compared to the traditional approaches for direct selling, the Internet seems to be an emerging method. It is used predominantly by males.

**Table IV.1: Direct Selling Approaches**

<b>Approaches Used</b>	<b>Percent of Respondents</b>
Friends	99
Contacts through other people	99
Telephone	75
Advertisements, flyers	69
Home parties	63
Knocking on doors	20
Internet/ Website	17
Email	12

Source: E&Y Survey of Russian Direct Sellers, 2005

## **Benefits of Direct Selling to Direct Sellers**

### *Nature of the Profession*

Direct selling attracts professionals who appreciate the variety and quality of its product offerings. As noted earlier, the primary motivation for direct sellers entering the Russian industry is to buy products for their own use. The main benefit cited of being a direct seller, as shown in Figure IV.6, is to buy these products at a lower price. Eighty seven percent of respondents cited this benefit. Other oft-cited benefits were to “Earn more money”, “Meet and socialize”, and to “Have flexibility...”. Direct sellers enjoy the profession for more than financial reasons.

### *Development of Entrepreneurship*

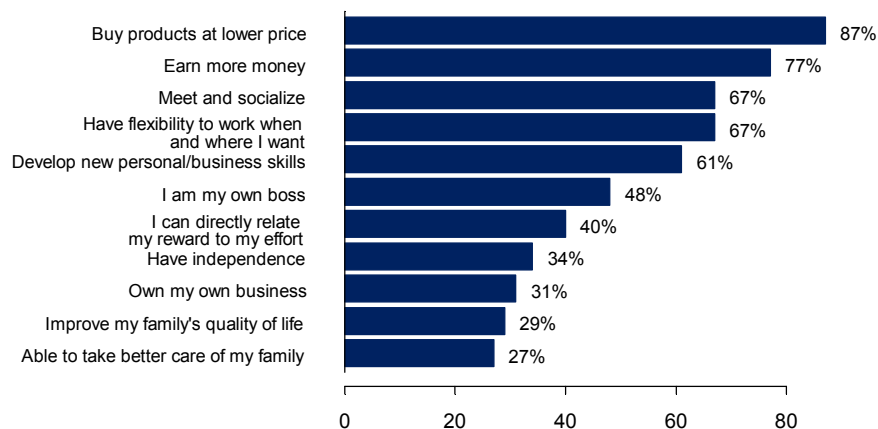
Though product preferences and flexible nature of the work are the most oft-cited, other benefits accrue to direct sellers. In particular, they have opportunities to develop their own business, fostering an environment of entrepreneurship. They own their own small business, while benefiting from the assistance of larger, more established direct selling companies. Of those responding to the survey, 48 percent cited ‘I am my own boss’; 34 percent cited “Have independence”; and 31 percent cited the ability to “Own my own business” as a benefit; Significantly more people cite these as benefits to being in the industry than cited them as reasons for entering the industry. As direct sellers continue in the profession, they find benefits that may not have been apparent to them when first starting in the business.

### *Range of Benefits*

Direct sellers indicated that being a direct seller brought many benefits. When asked to cite benefits, about 59 percent chose more than 5 of the 11 benefits listed in the questionnaire. Nine percent marked all the benefits listed.



**Figure IV.5: Benefits of Being a Direct Seller**



Source: E&Y Survey of Russian Direct Sellers, 2005

As noted in Figure IV.5, 61 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. For example, 81 percent of direct sellers cited “Work better with others” as a benefit; 78 percent cited “Build better sales skills” and 68 percent cited ‘Take more initiatives’. Because direct selling in Russia is generally undertaken as a second profession, these skills are important in the professional lives of direct sellers.

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

Improved Professional Skills	Percent of Respondents
Work better with others	81
Build better sales skills	78
Take more initiatives	68
Build self esteem and confidence	67
Better organize your agenda	66
Feel more at ease in front of an audience	65
Build business management skills	50
Improve performance on other jobs	40

Source: E&Y Survey of Russian Direct Sellers, 2005

*Development of Increased Personal Business 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, Eighty one percent said they work better with others; 78 percent said their sales skills have improved through their direct selling experience; and 67 percent have built self-esteem and confidence through their direct selling experience. 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, 83 percent of respondents indicated that the benefits carried over to their private lives, and 36 percent of respondents indicated the benefits carried over to another job.

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

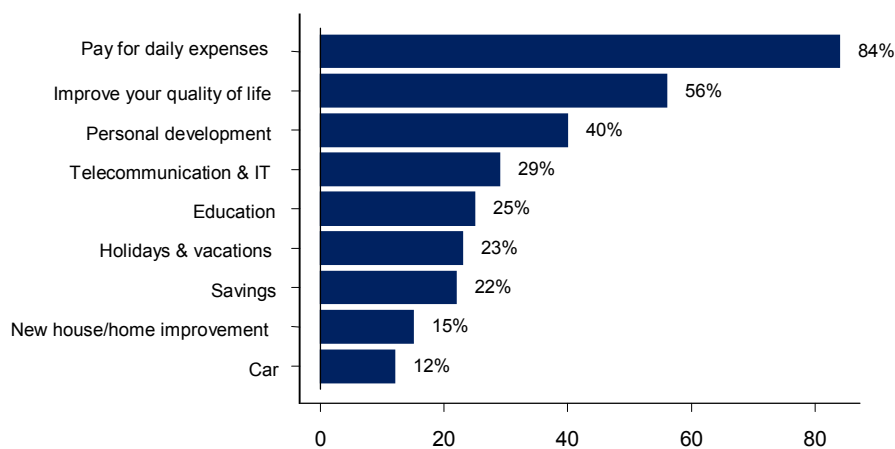
Benefits Carried Over	Percent of Respondents
In private life only	64
In another job only	17
In both private life and another job	19
<b>Total</b>	<b>100</b>

Source: E&Y Survey of Russian Direct Sellers, 2005

*Financial Benefits*

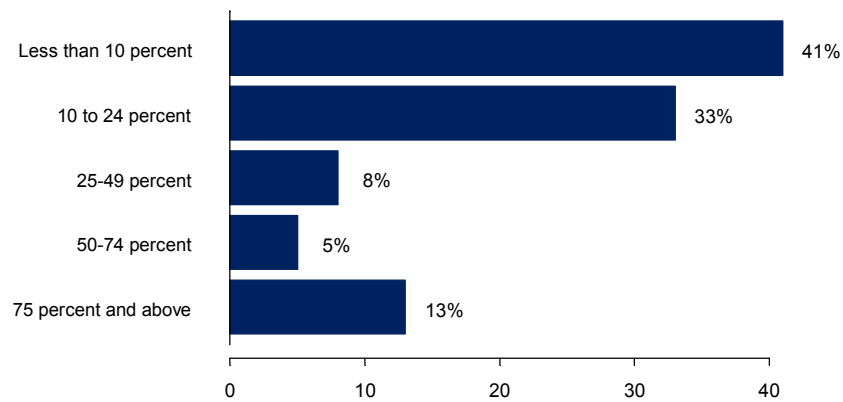
How did direct selling activities benefit respondents financially? Direct sellers often indicated more than one benefit, but they most frequently said they used the money earned from their direct selling activities for daily expenses (84 percent) and to improve quality of life (56 percent) (Figure IV.6). Nearly seventy percent of respondents reported that money from direct selling accounted for less than a quarter of their household income (Figure IV.7). This is consistent with the fact that 75 percent of direct sellers spend less than 20 hours weekly devoted to direct selling. Direct selling in Russia appears to be primarily a part-time activity used as a supplementary income source.

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



Source: E&Y Survey of Russian Direct Sellers, 2005

**Figure IV.7: Percent of Household Income that is Derived from Direct Selling Activities**

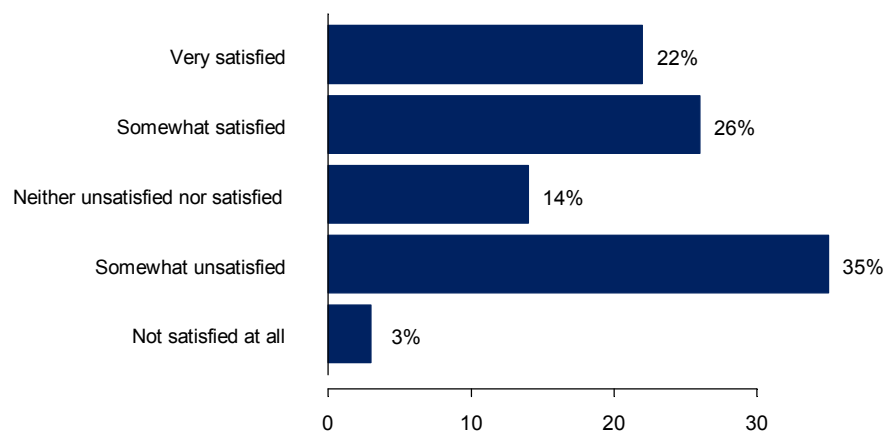


Source: E&Y Survey of Russian Direct Sellers, 2005

*Satisfaction of Direct Sellers*

The direct sellers indicated they are generally pleased with their experience in the industry. Forty eight percent described themselves as either “somewhat satisfied” or “very satisfied.” (Figure IV.8). According to the companies surveyed, the average turnover rate among direct sellers was 34 percent. However, only 5 respondents answered this question – answers ranged from 5 to 60 percent.

**Figure IV.8: Satisfaction of Direct Sellers**



Source: E&Y Survey of Russian Direct Sellers, 2005

*Testimonials of Direct Sellers*

Here is a select sample of verbatim comments from Russian 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.”

- *I started reading more, setting goals for myself and achieving these goals.... Now I know for sure that there’s nothing I cannot achieve. Everything depends on me. At my (primary) work people say that when they look at me they want to live again. It is true because, probably, I just love the whole world, my family, my clients and it just makes you want to live, love and*

*dream! I thank my company for this and my sponsor. Now I can give beauty to the people and nothing could be better than this!*

- *My mother went to study direct sales and after six months she decided to start her own business. And she succeeded because she already had experience in the area of direct sales.*
- *I conducted advertising action (a “running sentence” on TV). A young woman contacted me – she wanted to lose weight. She became my client. After she got the desired results we continued our relationship and a year after that we got married. As of today, we are married for five years and have 2 kids. I’m very happy!*
- *I visited four countries with my child (we could afford this quite expensive experience) while the other parents of the kids attending the same school (and it’s a prestigious English school) could not afford this.*
- *We passed smoothly through a financial crisis that shook Russia in 1998-1999. And I helped several people to find their place in life.*
- *In his day care center, my child mentioned the fruit shampoo and scrubs we use at home, and I instantly received several orders for these products from the teachers there.*
- *A 60-year old woman was so pleased with one of the facial skin care products that she started to order this product regularly and distributed it among her friends.*
- *I have a lot of different skin care products on my shelves. My friends ask me for advice when they have to choose any skin care products. My friends say that I look better now. My daughter has become a “little woman” – she already knows how to properly take care of herself, how to choose and apply skin care products, which makes her a center of attention among her peers.*
- *My husband was quite negative about my work in the company, but when I was at home with the newborn child and still got paid he understood how important my work is.*
- *My clients became more attractive and look “cared for.”*
- *I was able to make a correct business decision in planning the purchase of the 3<sup>rd</sup> apartment. It took us one year to buy it and 3 months after that the real estate went up 2.5 times!*
- *Once I sold a hand lotion with lemon and herbal extracts to a woman. In about two weeks she met with me and expressed her gratitude for this product. It turned out that her child had dry skin on his palms, he started using the lotion and skin dryness was substantially reduced. I was very happy that the product I sold helped her child to feel better.*
- *The lotions have helped many women to solve their skin problems and they were grateful to me for that.*
- *An opportunity to help my parents and other people; An opportunity to travel around the world.*

## Challenges Faced By Direct Sellers

Two questions were asked about the challenges direct sellers face in Russia. One asked direct sellers to rank a list of potential challenges they face. “Not enough clients” was ranked as the number one challenge overall (Table IV.4). About 30 percent of direct sellers ranked it as the most significant challenge, and 19 percent selected it as the second most significant challenge. Another highly ranked challenge is “Biases of general public against direct selling”. The second question asked direct sellers what factors prevent them from selling more products or gaining new customers. Here, only 20 percent of direct sellers chose ‘negative attitude toward the direct selling industry’ as a significant barrier. While perceptions of the industry may be a significant difficulty faced by direct sellers, responses indicate that they are doing a good job overcoming that obstacle.

**Table IV.4: Challenges Direct Seller Faces by Level of Significance**

<b>Challenges</b>	<b>Rank</b> (from most significant to least significant)
Not enough clients	1
Biases of general public against direct selling	2
Lack of time	3
Lack of motivation	4
Difficulty in obtaining business loans	5
Lack of training	6

Source: E&Y Survey of Russian Direct Sellers, 2005

Among the list of potential factors that prevent direct sellers from selling more products or gaining new customers, the most chosen factors are that customers already use another sales representative or product (43 percent and 37 percent, Table IV.5), or products are too expensive (27 percent).

**Table IV.5: Factors that Prevent Direct Sellers from Selling More Products or Gaining New Customers**

<b>Factors</b>	<b>Percent of Respondents</b>
Client is already using the services of another sales representative	43
Client is already using a different brand	37
Products are too expensive	27
Negative attitude toward the direct selling sales representative	24
Negative attitude toward the direct selling industry	20
Negative attitude toward the products	17
Negative attitude toward the direct selling company	13

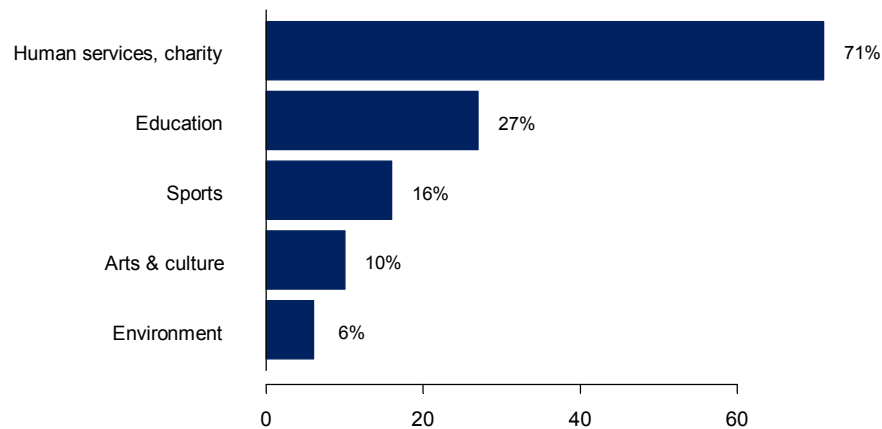
Source: E&Y Survey of Russian Direct Sellers, 2005

## Social Benefits of Direct Selling to Society

### *Contributions from Charitable Giving*

Direct selling organizations gave an estimated RUB 4.0 million to charitable causes in 2004 and again in 2004. When asked if they contribute any money, goods or services to social programs, 71 percent of direct seller respondents said they contributed to human services and charities, and 27 percent of respondents contributed on education (Figure IV.9).

**Figure IV.9: Charitable Contributions to Social Programs**  
(Multiple Responses Allowed)



Source: E&Y Survey of Russian Direct Sellers, 2005

### *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, 9 percent of their customers live in rural areas while 16 percent of their customers are age 50 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 Direct Selling Association [Russia] (RDSA) is the official direct selling association of Russia and is a member of WFDSA. RDSA provided invaluable support and collaboration in conducting the research. The current members of the RDSA are:

Amway	Mary Kay
AquaSource	Nu Skin Enterprises
Avon Beauty Products	Oriflame
Faberlic	Pharma Cosmetics
Herbalife	Tupperware

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 conduct is available for viewing at [http://www.wfdsa.org/world\\_codes/code.asp](http://www.wfdsa.org/world_codes/code.asp)

## Appendix B: Survey of Direct Selling Organizations

### 2005 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.)

<b>Sales Activities</b>
-------------------------

1. What were your total estimated retail sales in [country] in fiscal year 2004? (in local currency):

\_\_\_\_\_

1b. If you do not calculate estimated retail sales, please provide your net (or wholesale) sales in [country] in fiscal year 2004?

\_\_\_\_\_

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	2004 Estimated Total Retail Sales (in %)
<b>Personal Care Products</b> , such as cosmetics, fragrances, skincare, jewelry, ladies and children's clothes and other personal items	_____ %
<b>Food Products</b> , such as frozen foods, gourmet foods, and other foods	_____ %
<b>Health Products</b> , such as nutritional supplements, meal replacement (food bars, drinks), diet plans and other products	_____ %
<b>Household Products</b> , security, water treatment, energy saving, electrical, home decorative, furnishing, cookware, tableware, kitchenware, houseware, home and car cleaning and other household products	_____ %
<b>Family Related Products</b> , such as books, toys, games, audio, video and business aids, photography, and scrap booking	_____ %
<b>Service Products</b> , such as telecom, utilities, insurance, financial, pre-paid legal and other services	_____ %
Other (Please specify _____)	_____ %
_____	_____ %
_____	_____ %
<b>Total</b>	<b>100 %</b>



**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 2004? 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 2004? 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	_____	_____
<b>Total</b>	_____	_____

7. What percentage of your active direct sellers in 2002 did not renew into the business in 2004?

%

**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 2004 (please include subsidiaries in the totals).

Number of facilities: \_\_\_\_\_

Product Description	Value of Production (in local currency)	Value of Exports (in local currency)
<b>Goods sold through Direct Sellers</b>		
Personal Care Products	_____	_____
Food Products	_____	_____
Health Products	_____	_____
Household Products	_____	_____
Family Products	_____	_____
Service Products	_____	_____
Other (_____)	_____	_____
<b>Goods sold through other non-Direct Sellers</b>	_____	_____
<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 2004.

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 2004 (in local currency).

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

13. What were your company's approximate expenses for the following activities in [country] in 2004 (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
2004	_____	_____
2002	_____	_____
2001	_____	_____

15. What were your company's annual training expenses in [country] in 2004 (in local currency)?

For own employees \_\_\_\_\_

For direct sellers \_\_\_\_\_

**Taxation**

16. Please indicate the taxes your company paid in [country] for 2004 (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
2004	_____	_____	_____
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

### 2005 WFDSA/RDSA 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 (Purchasing, Selling, Sponsoring, or Business Building)?**

- |  |   |
|--|---|
| <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. Why did you become involved with Direct Selling? [Check all that apply.]**

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

**3. Have you been affiliated with more than one direct selling company at the same time in the past 2 years?**

- Yes  
 No

**4. Have you conducted any direct selling activities (Selling, Sponsoring, or Business Building) in the past 2 years?**

- Yes – go to Q5  
 No – skip to Q4a

**4a. Have you purchased any products from the companies which you have been affiliated in the past 2 years?**

- Yes – go to Q23  
 No – skip to Q23

**5. What did you do before joining Direct Selling?**

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

**6. During approximately how many months each year are you involved as a Direct Seller?**

- 1-3 months  
 4-6 months  
 7-12 months

**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 with other employment |
| <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?

- 0 hours
- 1 to 4 hours
- 5 to 9 hours
- 10 to 14 hours
- 15 to 19 hours
- 20 to 29 hours
- 30 to 40 hours
- More than 40 hours

9. Did you receive any training in 2004? If yes, who provided the training?

- No, didn't receive any training
- Yes, received training from the direct selling company
- Yes, received training from my upline
- Yes, received training from an outside training company

10. How many people did you employ in 2004 to support your direct selling activities, not including your down line direct sellers (support includes administrative, reception, logistics, etc.)?

- None
- 1 to 4 people
- 5 to 10 people
- 11 to 50 people
- More than 50 people

11. What were your estimated total business expenses (including the expense of purchasing supplies, training employees and other business expenses) in 2004 (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 (_____)	_____
<b>Total</b>	_____

12. What was your total estimated sales paid by the ultimate consumer in fiscal year 2004 (in local currency)?

\_\_\_\_\_

13. Among the total sales you provided above, what percentage of your 2004 total estimated sales paid by the ultimate consumer, even if the customer was you, was for your personal consumption?

\_\_\_\_\_ %

14. 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"/>
Email	<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"/>

15. Please describe your consumers by age and location.

By Age	
Younger than 18 years old	_____ %
18 to 34 years old	_____ %
35 to 49 years old	_____ %
50 to 64 years old	_____ %
65 years old or older	_____ %
Total	100%

16. Please describe your consumers by age and location.

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



**Impacts of Direct Selling**

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

- Not satisfied at all
- Somewhat unsatisfied
- Neither unsatisfied nor satisfied
- Somewhat satisfied
- Very satisfied

18. 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 to work when and where when I want
- I am my own boss
- I can directly relate my reward to my effort
- Improve my family's quality of life
- Have independence
- Meet and socialize
- Own my own business

19. 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"/>

20. 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

**21. 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, household goods, etc.)
- Personal development
- Telecommunication & information technology
- Other, specify \_\_\_\_\_

**22. 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
- DVD machine

**23. 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 \_\_\_\_\_

**24. Please rank the THREE most significant challenges you face in your direct selling activities.**

	MOST Significant Challenge	2 <sup>nd</sup> Most Significant Challenge	3 <sup>rd</sup> Most Significant Challenge
Not enough clients	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Biases of general public against direct selling	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lack of training	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lack of time	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lack of motivation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Difficulty in obtaining business loans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other, specify _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**25. Please rate how significant the following factors prevent you from selling more products or gaining new customers.**

	Not Significant At All	Not Very Significant	Somewhat Significant	Very Significant	Extremely Significant
Negative attitude toward the direct selling <b>industry</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Negative attitude toward the direct selling <b>sales representative</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Negative attitude toward the direct selling <b>company</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Negative attitude toward the <b>products</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Products are too expensive	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Client is already using the services of another sales representative	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Client is already using a different brand	<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"/>

**26. 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.**

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**Demographics**

Finally, we are asking a few questions about you.

**27. Your gender**

- Male  Female

**28. Your age**

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

**29. Your marital status**

- Single, never married  Married / Co-habitant  Divorced / Widow

**30. How many members of your household participate in Direct Selling with you?**

\_\_\_\_\_

**31. Do you have any kind of disability?**

- Yes  No

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

\_\_\_\_\_

**33. What type of area do you live in?**

- Rural  Suburban  Urban

**34. Approximately what percentage of your household income is derived from direct selling activities**

- Less than 10 percent  25-50 percent  More than 75 percent  
 10 to 25 percent  50-75 percent

**35. What is your highest education level?**

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

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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 Direct Selling Association [Russian] (RDSA) supplied Ernst & Young with a current list of RDSA members. The list provided at the time of sample selection was comprised of nine members<sup>2</sup>, and included the estimated total wholesale revenues and the estimated number of direct sellers for each member. One member company was new to the industry in Russia and declined to participate, leaving eight member companies to participate in the survey of direct sellers.

Two thousand and ten survey questionnaires were allocated amongst each of the eight 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 RDSA members. For example, a member that had 10 percent of the total wholesale revenues for all RDSA members would receive 10 percent of the total surveys distributed, or 200 surveys (2,010 \* 10% = 201 Surveys). In other words:

$$\text{Surveys Distributed to Company X} = (2,010) * \frac{\text{Total Wholesale Revenues for Company X}}{\text{Total Wholesale Revenues for RDSA}}$$

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. Eight 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. Two companies did not complete their sample selection resulting in a final direct seller sample size of 1,724.

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

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<sup>2</sup> Since the time of sample selection, RDSA has added one company to its membership.

### *Weighting Methodology*

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

The RDSA supplied Ernst & Young with information regarding the entire direct selling industry for Russia in 2004. 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:

$$\text{Sales Weight} = \frac{\text{Total Wholesale Revenues for the Industry}}{\text{Total Wholesale Revenues for Respondents}} = \frac{36.5 \text{ B}}{30.7 \text{ B}} \approx 1.19$$

Thus each Russian ruble in the respondents estimate represents approximately 1.19 Russian rubles 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 RDSA – these include total revenue and the number of direct sellers receiving compensation.

The information was supplemented with a survey of the RDSA members regarding their employees, production facilities, expenses, and taxes. The E&Y survey had seven responses from RDSA members representing 85.7% of the direct selling industry's revenue.

The Russian input-output matrix was used to establish the relationships between the direct selling industry and the rest of the Russian economy. The input-output matrix is compiled by Statistics Russia, System of National Accounts, Input-Output Division, Consulting and Marketing.

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 RDSA. The direct selling industry then had a weighted average relationship with other industry sectors.

An economic model, based on the Russian input-output model, 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 Russia.

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 Russia.

## Appendix E: Sampling Instructions

■ Ernst & Young LLP  
1225 Connecticut Ave NW  
Washington, DC 20046

■ 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.