



DIRECT SELLING ASSOCIATION



Agenda:

- Welcome
- DSA Research:
 - Evolving Marketplace Wave 1
 - DSA's 2018 Growth & Outlook Survey
- Legislative Updates and Ethics & Self-Regulation Programs
- Q&A

www.dsa.org

January 24, 2018

Dial-in: 1 (800) 394-6604
PW: 805454



DIRECT SELLING ASSOCIATION

DSA Research

www.dsa.org

Welcome to a new year of DSA research!

Agenda:

Kick-Off

**DSA's 2017 Evolving
Marketplace Survey**

**2018 Growth & Outlook
Survey**

Presenter:

Joe Mariano,
President, DSA

Judy Jones
Amway, Chair of DSA's Industry
Research Committee
&

Jay Schwartz,
Executive Director of Insights &
Marketing Intelligence,
New Avon
Research Committee Member

Paul Bourquin, Managing
Economist, Nathan Associates





DIRECT SELLING ASSOCIATION

dsa 2017 Evolving Marketplace Survey: Maintaining Relevance in the New Economy



Amway, Chair of DSA's
Industry Research
Committee



Executive Director of Insights
& Marketing Intelligence,
New Avon
Research Committee
Member

www.dsa.org

OBJECTIVES & METHODOLOGY

The study examines:

- The evolving nature of the direct selling model
- Increasing focus on consumers inside and outside the network
- The party plan model in the age of social media
- The challenges and opportunities posed by technology, e-commerce, and the collaborative economy

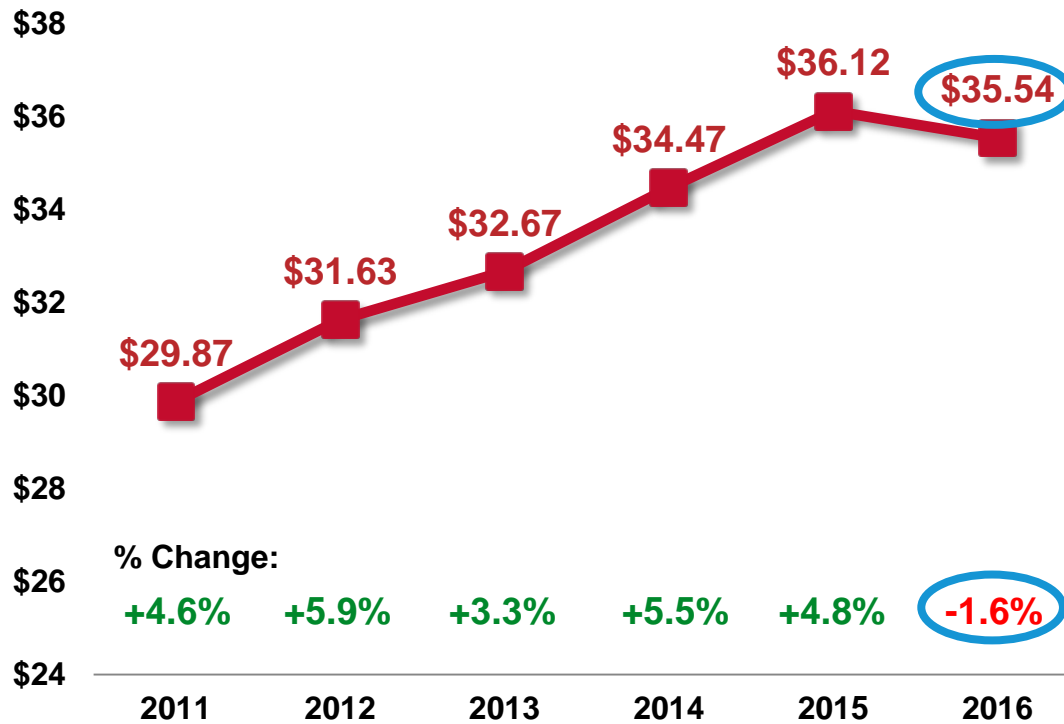


- The study was conducted online from September 8 - 29, 2017
- A total of 51 companies completed the survey out of 184 that were invited to participate – yielding 28% response rate

U.S. direct selling slowed in 2015 and declined in 2016



U.S. Estimated Direct Retail Sales (\$U.S. billions)



Indications for 2017 are that sales and salesforce will be down even further based on Q3 DataTracker research:

2017 YTD

Sales

-6%

New Representatives

-8%

Source: DSA's Q3, 2017 DataTracker

Source: DSA's 2017 Growth & Outlook Survey

The retail marketplace is evolving, and companies that don't learn from innovative leaders such as Amazon will get left behind

amazon-ification of America

- Amazon's innovation and fulfillment capabilities have **shaped today's consumer expectations.**

Amazon's Key Strategies are:

- Diverse Scope of Products
- Easy Ordering
- Fast Fulfillment

Key Takeaway: The transformation of the retail environment can serve as an inspiration for direct selling companies to invest in technology and increase their focus on the end consumer.

Direct selling companies view e-commerce as an immense opportunity and are taking action to remain competitive, but is it enough?



Impact of E-Commerce on direct selling business?

■ Not sure ■ Very serious threat

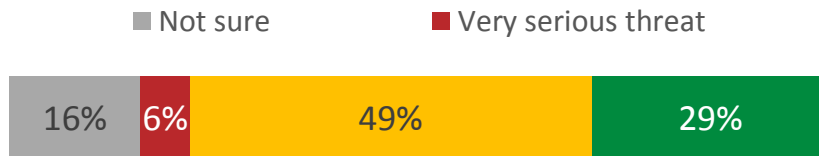


Companies are Taking Action to Remain Competitive...

- 75%** Improving website for consumers (who are outside the network)
- 73%** Improving website for independent reps
- 59%** Improving order and back-end processing
- 41%** Speeding up delivery
- 35%** Adding a preferred customer program
- 33%** Offering free shipping
- 16%** Entering into strategic partnerships
- 10%** Other Other Responses: Differentiating and improving our products even more from those offered on line; Providing unique items; Specific, high value added products not available anywhere else; Loyalty Program
- 10%** None

Are we paying enough attention to the Collaborative Economy?

Impact of Collaborative Economy on Ability to Recruit?



The "collaborative economy" offers new ways for people to earn additional income on a flexible basis



Companies are Taking Actions to Remain Competitive:

Is it enough?

- 71%** Improving website for independent reps
 - 67%** Improving website for consumers (outside the network)
 - 59%** Improving online sign-up process for independent reps
 - 57%** Emphasizing the additional benefits your company provides
 - 53%** Emphasizing coaching and mentoring programs for independent reps
 - 53%** Offering differentiated training programs for independent reps
 - 51%** Improving mobile apps for independent reps
 - 39%** Offering new benefits and perks
 - 29%** Improving mobile apps for consumers (outside the network)
 - 20%** Paying commissions more quickly
 - 8%** Offering consumers (outside network) a way to evaluate independent reps (star-ratings / reviews)
 - 8%** Other
 - 2%** None of the above
 - 10%** Don't know / Not sure
- Other Responses:
Using vision of new ways of doing things; Work in progress; Improving mobile but not through native app; Industry has always been part of collaborative economy

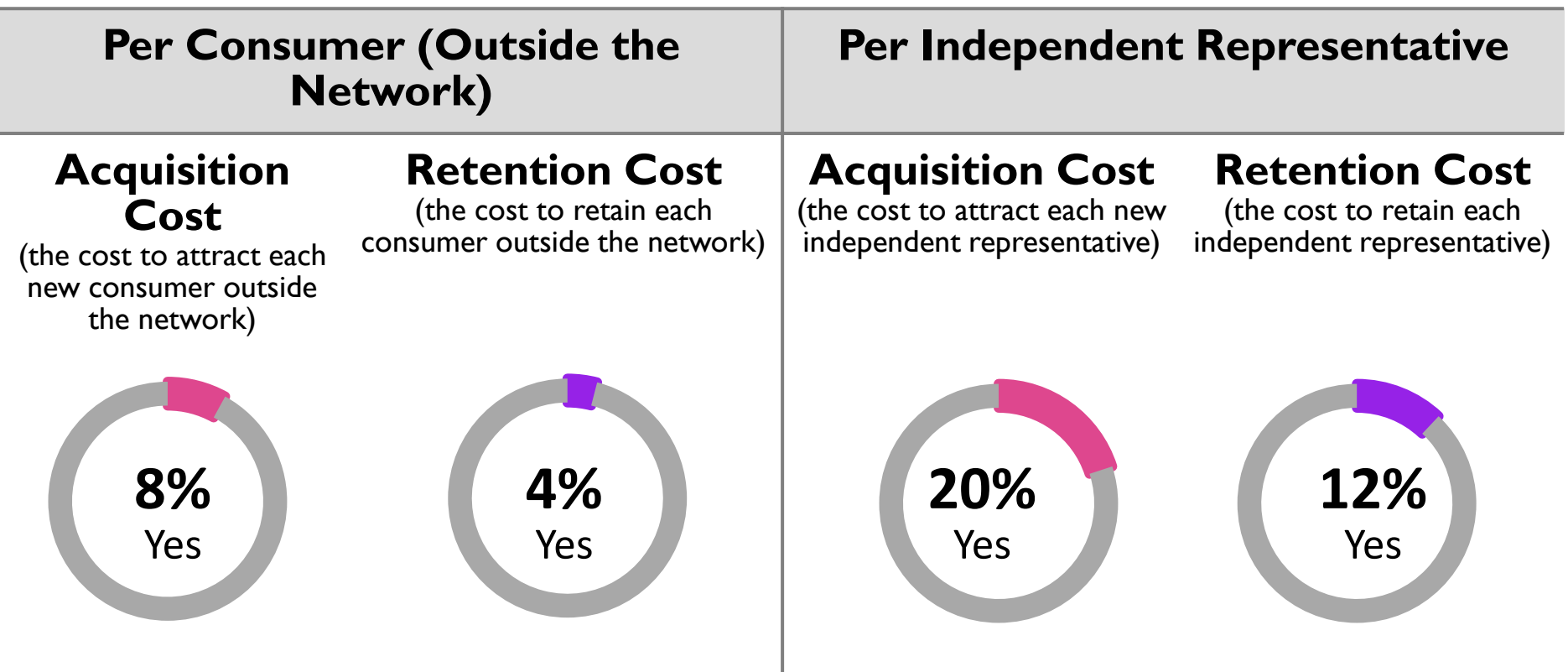
Direct selling is evolving, with an increasing focus on consumers inside and outside the network

Metrics are missing... KPIs are needed.



- Most companies do not track acquisition and retention costs

Company tracks this data...



Among companies who track these KPIs, half (or more) are not sure of the actual metrics.

Over half of responding companies segment their independent representatives (to better differentiate customers from sellers)

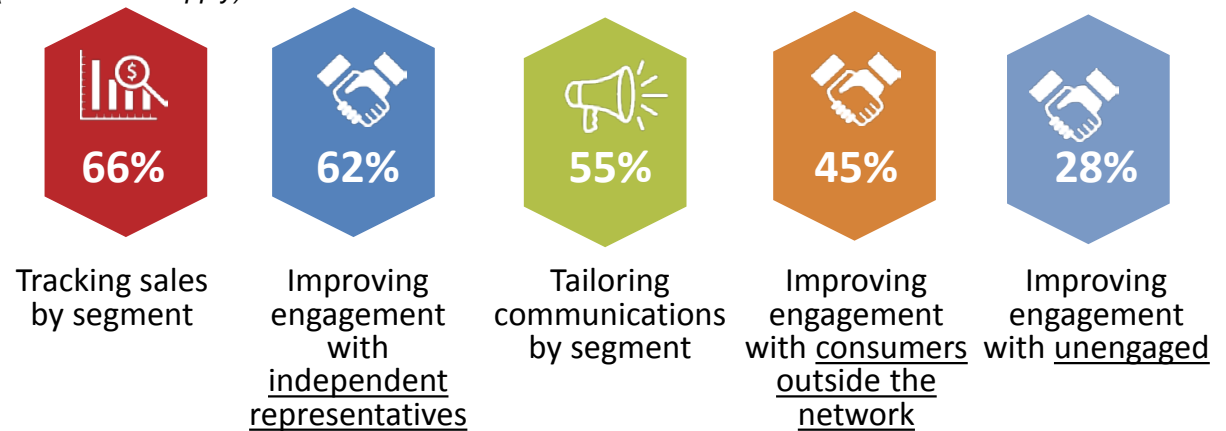
- Larger companies and non party plan are more likely to segment.



More than half (57%)
say their company
internally **segments**
Independent
Representatives

Companies see these benefits of segmentation:

(Select all that apply)



14% Not applicable, 3% None of the above

Reduced Base: Among those whose company has segmented its independent representatives (n=29)

Half of companies have a preferred customer program



Preferred Customers Defined

- Have registered or renewed as a preferred customer with a direct selling company in the past 12 months.
- May or may not be eligible to pay wholesale prices, depending on the company's program.
- Are NOT eligible to sell products/services to others, nor are they eligible to earn.

Half (49%) of participating companies have a preferred customer program (among the 49% ... 12% have more than one)

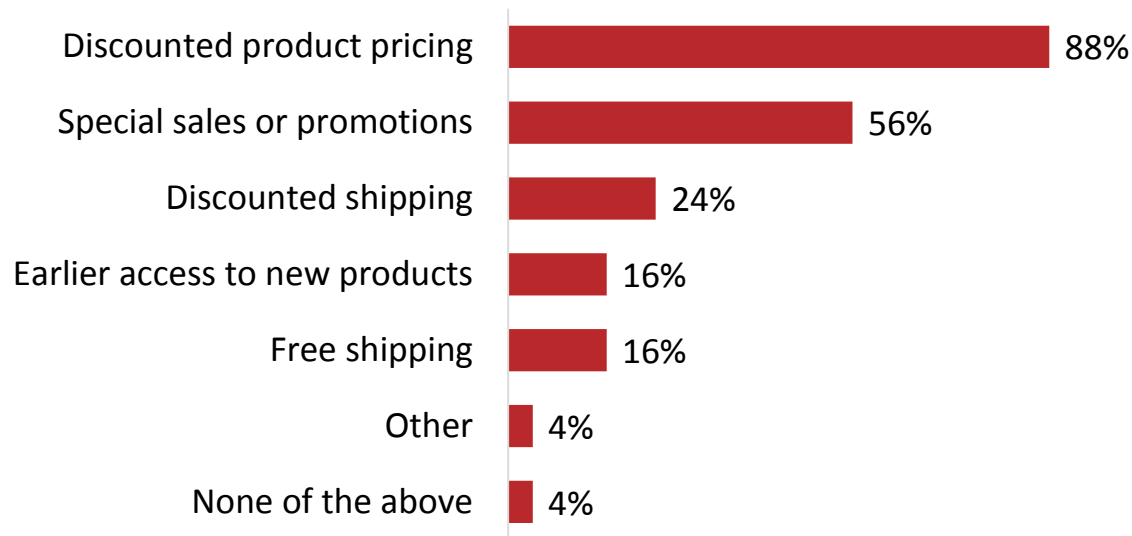
Of these companies, 44% have actively (re)segmented independent representatives

Reduced Base: (n=25)



Preferred Customer Benefits/Perks

Companies with preferred customer programs offer the following:



Reduced Base (n=25): Among those whose company has a preferred customer program



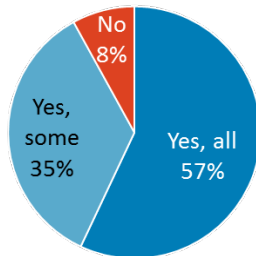
Discounted pricing and promotions are primary benefits of Preferred Customer Programs

Who are customers outside the network?



Nine out of ten (92%) companies **have access** to names of consumers outside of the network

Does Company Have Access to Names of Customers of Independent Reps?



Companies obtained names through...

77% ✓

Registering customers and shipping directly to them

43% ✓

Independent representatives providing the names

28% ✓

Reserving company's right to own the customer relationship in the contract with independent reps



One-third of the companies **actively conduct primary research** among consumers outside of the network



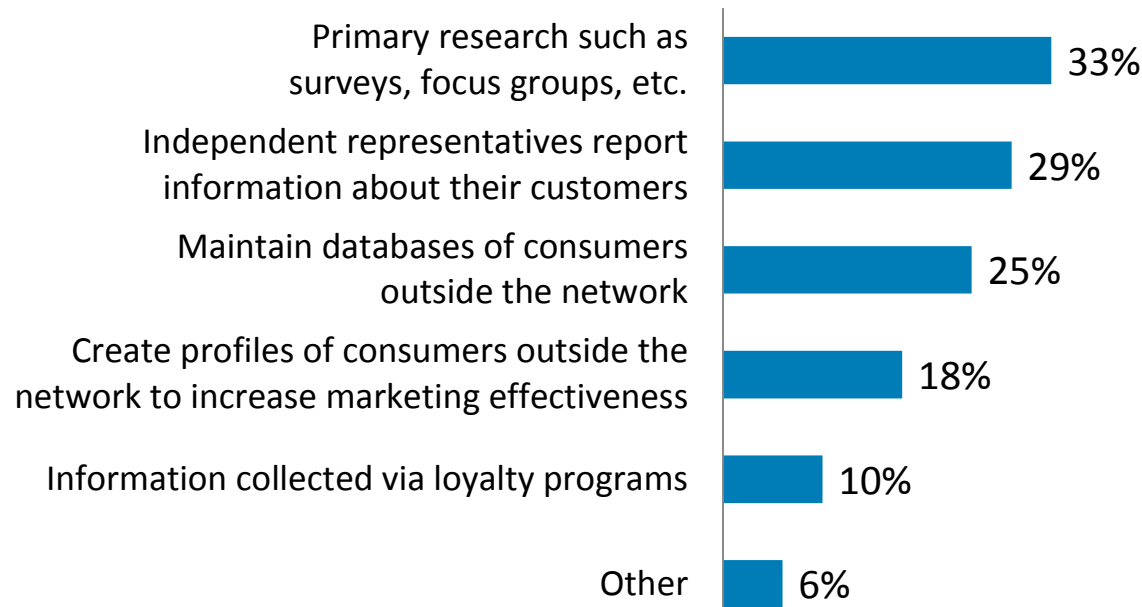
One-third **do not take any actions to profile** customers outside of the network

One third of companies actively conduct primary research among consumers outside the network of independent representatives.

- Larger companies are more likely to do so.
- **One third do not take any actions** to profile consumers outside the network.



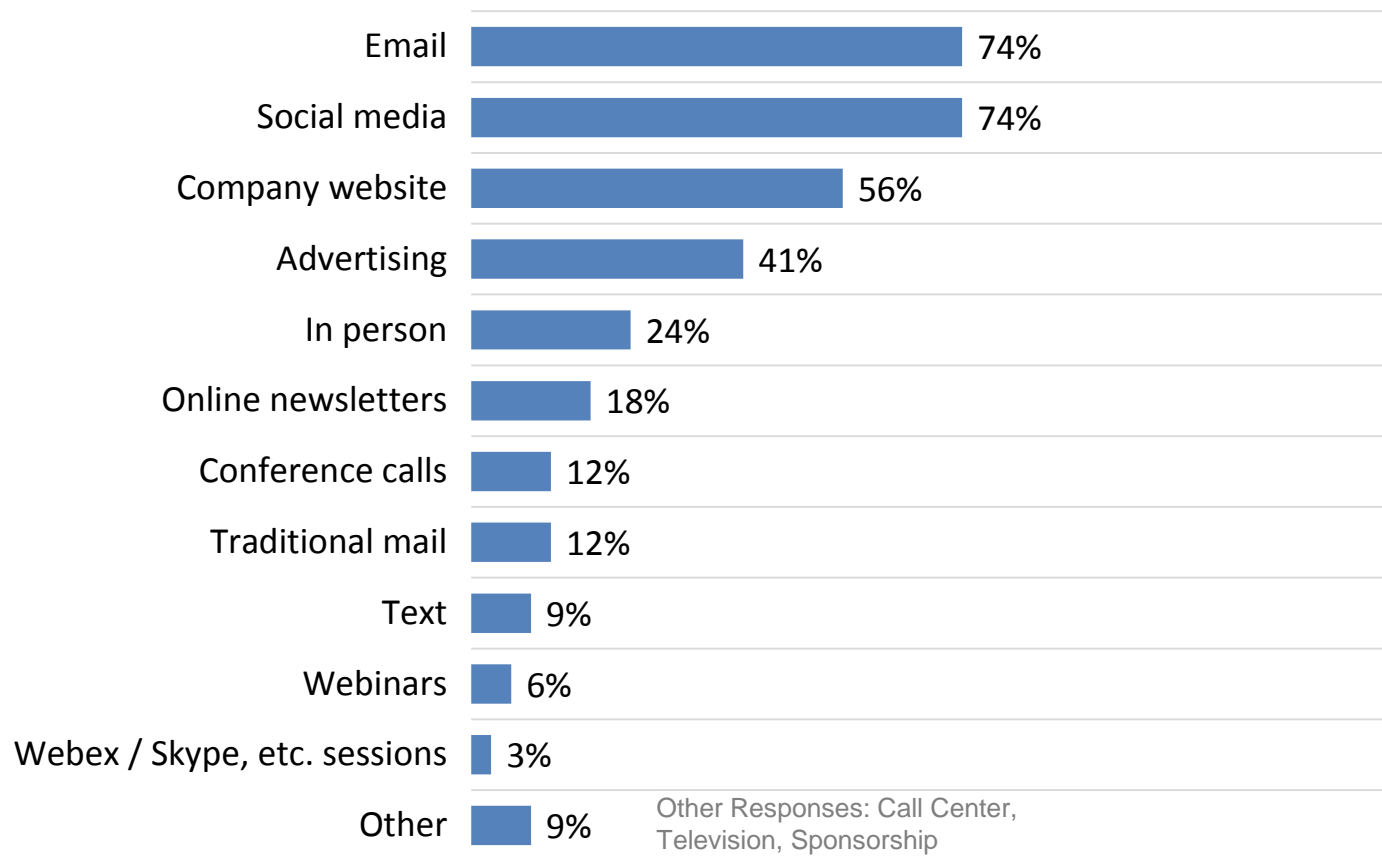
Actions Taken by Company to Understand and Profile Consumers Outside the Network:



2/3 of companies communicate directly with consumers outside the network; most with email and social media



Ways Companies Communicate with Consumers Outside the Network:



Ordering and Fulfillment Processes: Are Direct Selling Companies Keeping Up?

Half of companies accept orders directly from consumers outside the network



Half (51%)
of companies allow
consumers outside
the network to order
directly



41%
Consumers must
connect through
independent
representative first

8% Not Applicable

How Company Handles Orders Not Connected to an Independent Representative

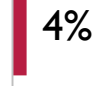
It is assigned to an existing ind. rep who is paid most or all of the personal commission



It is handled as a house account and no commission is paid



Not assigned to an ind. rep, but co. pays related commission into a shared pool or pot



Other 8%



Reduced Base (n=26)

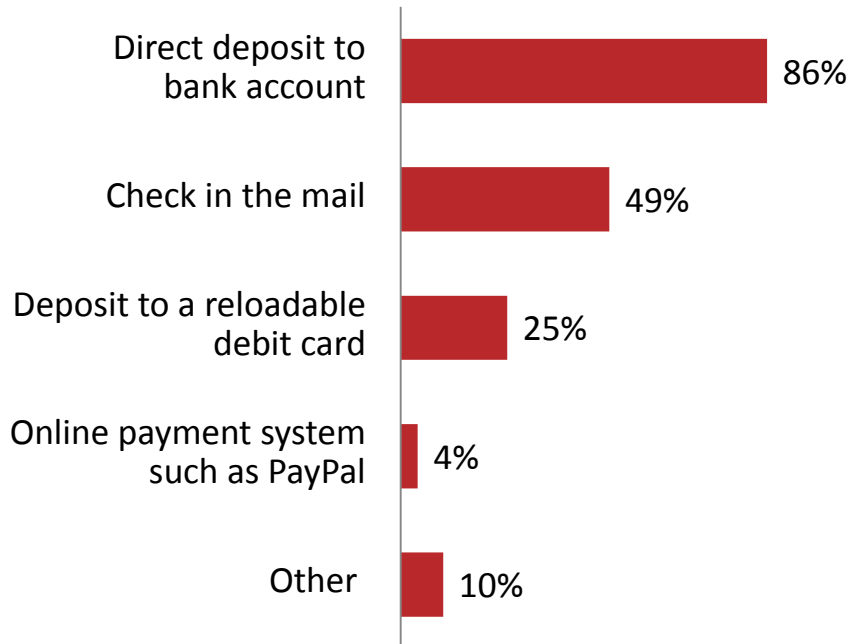
Payments: Are we positioned to compete?



Means of payment are out of synch with today's economy

How Independent Reps Are Paid:

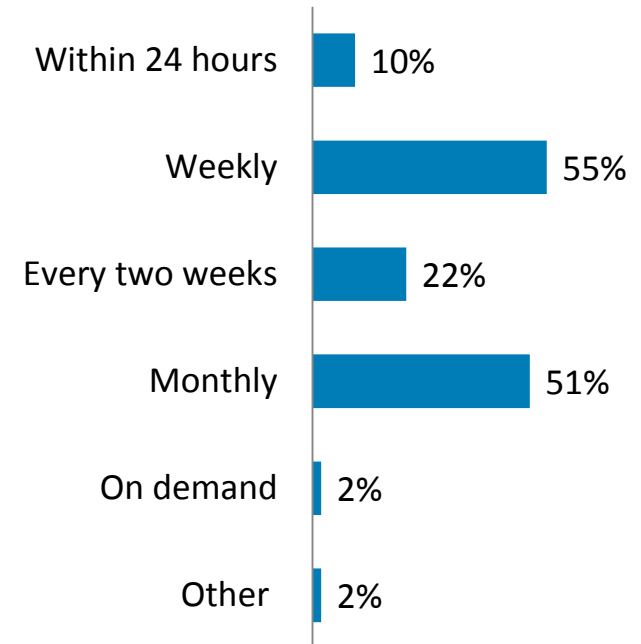
(Select all that apply)



Frequency of payment does not meet today's expectations

Frequency of Payments:

(Select all that apply)



The growing collaborative economy provides opportunities for people to be paid quickly upon starting their business, which could be a competitive threat to direct selling companies that take longer to compensate independent representatives.

Eight out of 10 companies ship directly to consumers outside the network

- One impact of Amazon: shipping expectations of consumers have evolved. Are direct selling companies keeping up?



80% Will ship directly to consumers outside the network even if independent reps have placed the order

(14% No; 6% Not sure/NA)

Method(s) Used to Charge for Shipping and Handling Fees to Consumers that Are Not Also Independent Representatives:

(Select all that apply)

49% Determined by the dollar amount of order

41% Flat fee

25% Determined by weight

20% Free Shipping (Net)

Note: Some companies waive charges based on certain criteria and offer free shipping

16% Charge waived based on order size, advancement level, or other

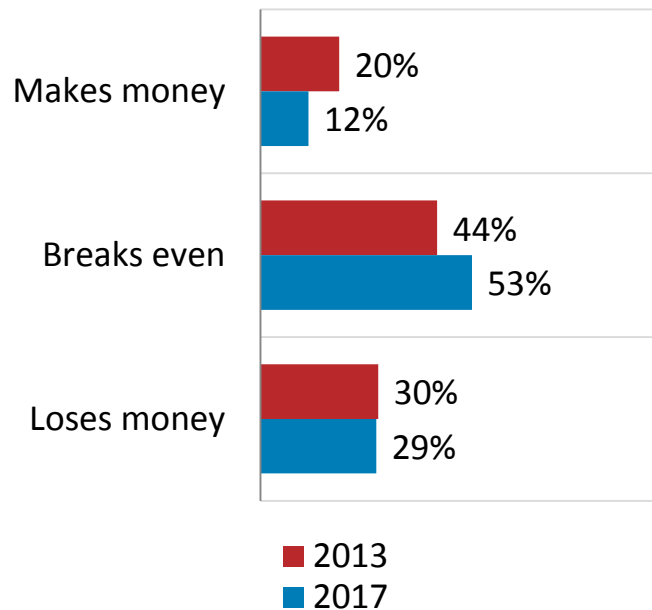
6% No charge (Free shipping)

6% Other

Companies are under competitive pressure to give up profiting on shipping and handling, but are they doing enough to meet customer expectations?

Cost of Shipping and Handling

My company...



2013 - No answer: 7%
2017 - Not sure : 6%

Method(s) Used to Charge Independent Reps for Shipping and Handling Fees:

(Select all that apply)

47% Determined by the dollar amount of order

39% Flat fee

29% Determined by weight

14% Free Shipping (Net)

Note: Some companies waive charges based on certain criteria and offer free shipping

10% Charge waived based on order size, advancement level, or other

6% No charge (Free shipping)

6% Other

4% Not applicable

Conclusions and implications

AMAZON IS KING



Consumer expectations have changed ...

***TRANSFORMATIONAL CHANGES* are needed**

- Update ordering, payment & fulfillment systems to meet today's on-demand reality
- Experiment with omni-channel and other innovative approaches ... learn to fail fast.

IT'S A TECH TAKE-OVER



E-commerce and Collaborative Economy are tech-based

- Prioritize to fully leverage the potential of technology, CRM & social media
- Provide representatives with personal websites & other tech solutions to facilitate business building
- Develop mechanisms to track online transactions

STRONG RELATIONSHIPS ARE A DIFFERENTIATOR FOR DIRECT SELLING

**High tech – yes ... but leverage the high touch,
too**

- There will always be a need for personal interaction; continue in-person recommendations & demonstrations
- Research to understand consumer needs
- Get tech in hands of independent representatives (literally on mobile) to leverage personal service

THE METRICS ARE MISSING



Understanding your product/service consumers is key

- Use segmentation & CRM to maximize performance
- Implement mechanisms to track online transactions and the effectiveness of social media
- Understand & track acquisition and retention costs for both consumers and representatives
- Develop a complete tool-kit of KPIs to track progress toward strategic goals



DIRECT SELLING ASSOCIATION

2018 Growth & Outlook Survey U.S. Direct Selling in 2017

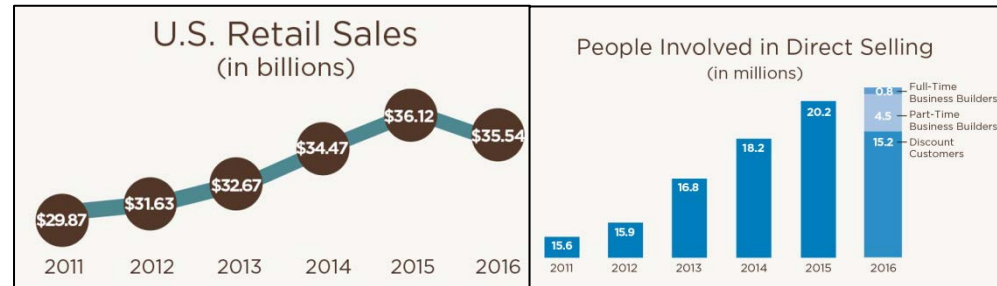
www.dsa.org

Access the online Growth & Outlook survey at: www.DSA.org/GO2018.
Or, visit www.dsa.org/go2018pdf to download a PDF of the Survey!

2018 Research Objectives



1. Size the direct selling industry



2. Quantify and segment the people involved in direct selling



3. Announce results at DSA's 2018 Annual Meeting in San Diego, CA (June 17-19)



Benefits to you, your company, and the industry

1. **Educating** yourself and your colleagues on market dynamics and trends and helping you make informed business decisions

2. **DSA Advocacy Efforts**

Direct Sales: 20 Million American Entrepreneurs Strong and Growing

Direct sales is among the most accessible paths to entrepreneurship. More than 20 million Americans are involved in direct selling to make a few extra dollars, or to build a business. That's because direct sales offers a low-risk way to participate in a fast-growing part of the economy.

Direct sales remains a relationship business. Some of these relationships still happen face-to-face, however, direct sales has changed along with the rest of the economy. Individuals are building relationships through social media, using e-commerce sites to complete transactions, and sometimes functioning as mobile "show rooms" for emerging product lines. The appeal of direct sales is often the ability to experience the product first hand and build a relationship with a sales person who uses the product themselves. Direct sales fills in an important gap in the emerging online economy.

For most Americans involved in direct sales, the revenue they earn is not their primary income but the way to a family vacation, or presents for the holidays, or just a little extra spending money. In fact, most direct sales only work part time in direct sales, and many have other jobs.

Direct sales are your neighbors, your friends, and your family—and whether they work a few hours a week or full time, they are American entrepreneurs in the truest sense of the word.

The information contained herein gives you a visual snapshot of direct sales in America. We hope you'll take a couple minutes to better understand what direct sales is all about.

Direct Sales Is Part of the Fabric of America

Direct Sales Touches Every Neighborhood in America

About 1 in 6 U.S. Households Are Involved in Direct Selling

The number of people involved in direct selling in the U.S. exceeds the population of each state in the U.S. with the exception of the three largest.

U.S. Census and DSA, 2010 Census & Census Bureau, Direct Selling 2016

Source: DSA, 2016 Census and Census Bureau, Direct Selling 2016

Direct Selling Association | 1601 K Street, NW | Suite 1001 | Washington, DC 20006 | (202) 452-8866 | dsa.org

Impact of Direct Selling by State, 2016

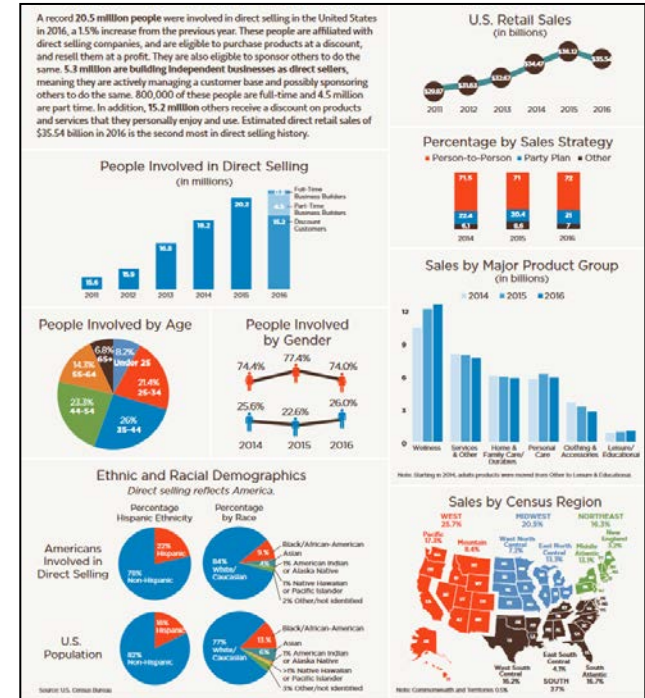
20.5 Million People Involved in direct selling, representing every U.S. state

U.S. Retail Sales: \$35.54 billion

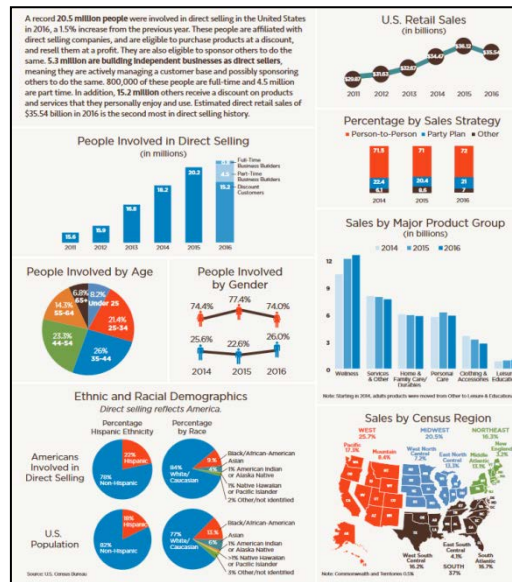
State	People Involved in Direct Selling	Sales by State Industry Estimates	State	People Involved in Direct Selling	Sales by State Industry Estimates
Alabama	244,075	\$150M	New Hampshire	60,645	\$10M
Alaska	37,595	\$67M	New Jersey	567,440	\$1,06B
Arizona	393,129	\$620M	New Mexico	117,483	\$207M
Arkansas	262,864	\$270M	New York	1,255,469	\$2.2B
California	2,301,497	\$4,152	North Carolina	489,245	\$826M
Colorado	427,396	\$679M	North Dakota	64,700	\$129M
Connecticut	200,002	\$158M	Ohio	554,226	\$1,04B
Delaware	63,579	\$142M	Oklahoma	309,632	\$364M
Florida	1,988,859	\$1,863	Oregon	278,404	\$543M
Georgia	656,317	\$876M	Pennsylvania	776,245	\$1,47B
Hawaii	106,840	\$92M	Rhode Island	57,839	\$98M
Idaho	120,757	\$99M	South Carolina	214,627	\$338M
Illinois	856,857	\$1,483	South Dakota	70,823	\$131M
Indiana	349,906	\$604M	Tennessee	370,763	\$650M
Iowa	249,450	\$272M	Texas	3,258,545	\$6.2B
Kansas	209,392	\$326M	Utah	194,982	\$422M
Kentucky	275,225	\$328M	Vermont	21,660	\$48M
Louisiana	286,935	\$297M	Virginia	393,727	\$705M
Maine	54,276	\$106M	Washington	483,374	\$779M
Maryland	332,957	\$689M	West Virginia	64,214	\$130M
Massachusetts	239,729	\$433M	Wisconsin	384,371	\$645M
Michigan	381,907	\$702M	Wyoming	44,483	\$84M
Minnesota	365,697	\$646M	District of Columbia	22,944	\$77M
Mississippi	164,517	\$92M	Guam	9,620	\$18M
Missouri	388,239	\$480M	Puerto Rico	124,960	\$142M
Montana	85,430	\$74M	U.S. Virgin Islands	5,633	\$9M
Nebraska	170,535	\$278M	N. Mariana Islands	1,039	\$1M
Nevada	171,380	\$340M	American Samoa	409	\$2M

Note: These estimated direct sales and people involved figures are extrapolated based on 2017 Growth & Outlook survey data submitted directly from DSA members.

Direct Selling Association | 1601 K Street, NW | Suite 1001 | Washington, DC 20006 | (202) 452-8866 | dsa.org



2018 Growth & Outlook Survey Message from Joe Mariano, DSA President



- *This annual survey **enhances our intelligence** and enables us to accurately report industry statistics to our constituencies, and serves as a foundation for our advocacy efforts*

Tips for completing the questionnaire



- Download the PDF of the questionnaire to browse all of the questions before completing the survey online:
www.dsa.org/go2018pdf
- Call a meeting at your company to increase efficiency by managing Q4 DataTracker and 2017 Growth & Outlook Surveys together
- Instead of having to create an account, you can now click on your unique, secure link which allows you to complete the survey in more than one sitting with your progress saved along the way
- Upon completing the survey, you are prompted to save/print your responses to make participation easier next year

Growth & Outlook Research Timeline 2018

January 12: Growth & Outlook Survey was emailed to all DSA member companies

March 9: Deadline for all G&O questionnaire submissions

June 4: 2017 top-level results presented at Annual Meeting

June/July: G&O Report distributed to all participating member companies



**Note: DSA's quarterly DataTracker survey for Q4, 2017 is also in the field now with a deadline of February 9*



NATHAN
ASSOCIATES INC.

DSA's Third Party Research Partner:

Paul Bourquin
Managing Economist
Nathan Associates

Research Process:

- Data collection
- Vetting
- Aggregation
- Analysis

Any Questions?

DSA:

Ben Gamse, Market Research Manager

Phone: (202) 416-6443

Email: bgamse@dsa.org

Nathan Associates:

Paul Bourquin, Managing Economist

Phone: (703) 516-7776

Email: pbourquin@nathaninc.com



**Participate in DSA's 2018 Growth & Outlook Survey by
the March 9 deadline: www.dsa.org/go2018**



DIRECT SELLING ASSOCIATION

Legislative Updates and Ethics & Self-Regulation Programs

www.dsa.org

Acting FTC Chairman Ohlhausen's 2017 Keynote Address



1. Commitment and buy-in from the industry;
2. Adequately funded mechanisms and independence from industry members;
3. Standards that are clear, meaningful, and fair; and
4. Effective enforcement mechanisms.

Recent Efforts: Additional Monitoring & Enforcement

Ensure a more proactive approach towards enforcement and compliance; institute social media monitoring for applicants and members



Reviewing 100% of DSA membership with emphasis on Product Claims, Earnings Representations, Issues in the Marketplace; utilize outside resources and third parties for workload



Achieve greater levels of membership-wide Code of Ethics compliance; foster dialogue with third party validators, continue to elevate DSA member companies in the marketplace and with policymakers

Synergy of Self-Regulation, Government Relations and Public Affairs

Draw upon the existing legacy 40 plus years of self-regulation, education, resources and expertise of the Association.

Respond to DSA's leadership to raising the bar as well as draw upon insights from law enforcement and input from critics

Formation of a stronger, more comprehensive program with additional expertise, third party credibility, identification of industry practices, public reporting and a far-encompassing reach of DSA members and non-members

Redouble efforts to prioritize ethics training and enforcement among DSA member companies with an active and ambitious agenda

Elevating Reputation of DSA Members & the Direct Selling Channel

Strengthen and raise the bar for ethical business practices; value case for DSA members and the direct selling model

Impart a stronger, more compelling value case for DSA member companies in advocacy efforts at the state and federal level



Government Affairs Priorities

H.R. 3409 and Similar Bill in the United States Senate

Moolenaar Amendment Inclusion in Final Funding Package

Impact of Tax Reform Package on Direct Selling Companies

State Priorities: Consumer Protection Legislation and Preservation of Independent Contractor Status

DSA's Grassroots Advocacy Center

Browser tabs: Inbox (4,947) - bennettj@gmail.com, Cosponsors - H.R.3409 - 115th, MatrixMasc Individual: Arthur, Direct Selling Advocacy Center, 4 Ways to Take a Screenshot in...

Address bar: www.dsa.org/advocacy/direct-selling-advocacy-center

Direct Selling Advocacy Center

H.R. 3409

Advocacy Resources

Industry Research

Government & Legal Library

Direct Selling Caucus


DSA PAC

DSA SuperPAC

Company Grassroots Advocacy

Policy Papers

▶ Direct Selling Advocacy Center



**DIRECT
SELLING
ADVOCACY
CENTER**

Welcome to the Direct Selling Advocacy Center!

Thank you for visiting DSA's Direct Selling Advocacy Center. Below, you will find two different ways for you to get involved with DSA's advocacy efforts:


- Click on the "Actions" Advocacy Campaign box to submit a pre-formed letter to your Member of Congress, urging them to co-sponsor H.R. 3409, the Anti-Pyramid Promotional Scheme Act of 2017, bipartisan consumer protection legislation.
- Click on the "Find Officials" box to identify your federal and state officials, whom you can contact regarding other direct selling-related questions and concerns.


Actions

1 advocacy campaign →

Find Officials

Look up and contact your officials.

ZIP Code 

Powered by  **voter voice**
A FiscalNote Company

Any Questions?



**(Participate in DSA's 2018 Growth & Outlook Survey by
the March 9 deadline: www.dsa.org/go2018)**