DIRECT SELLING ASSOCIATION

DSA LIVE!

Agenda:

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

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January 24, 2018

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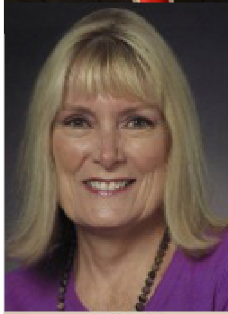
DSA Research

Welcome to a new year of DSA research!

Agenda:	***Presenter*:**
Kick-Off	**Joe Mariano,** President, DSA
DSA's 2017 Evolving Marketplace Survey	**Judy Jones** Amway, Chair of DSA's Industry Research Committee & **Jay Schwartz,** Executive Director of Insights & Marketing Intelligence, New Avon Research Committee Member
2018 Growth & Outlook Survey	**Paul Bourquin,** Managing Economist, Nathan Associates



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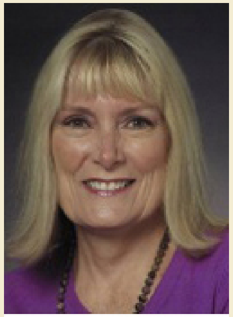
2017 Evolving Marketplace Survey: Maintaining Relevance in the New Economy



Amway, Chair of DSA's Industry Research Committee

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

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OBJECTIVES & METHODOLOGY

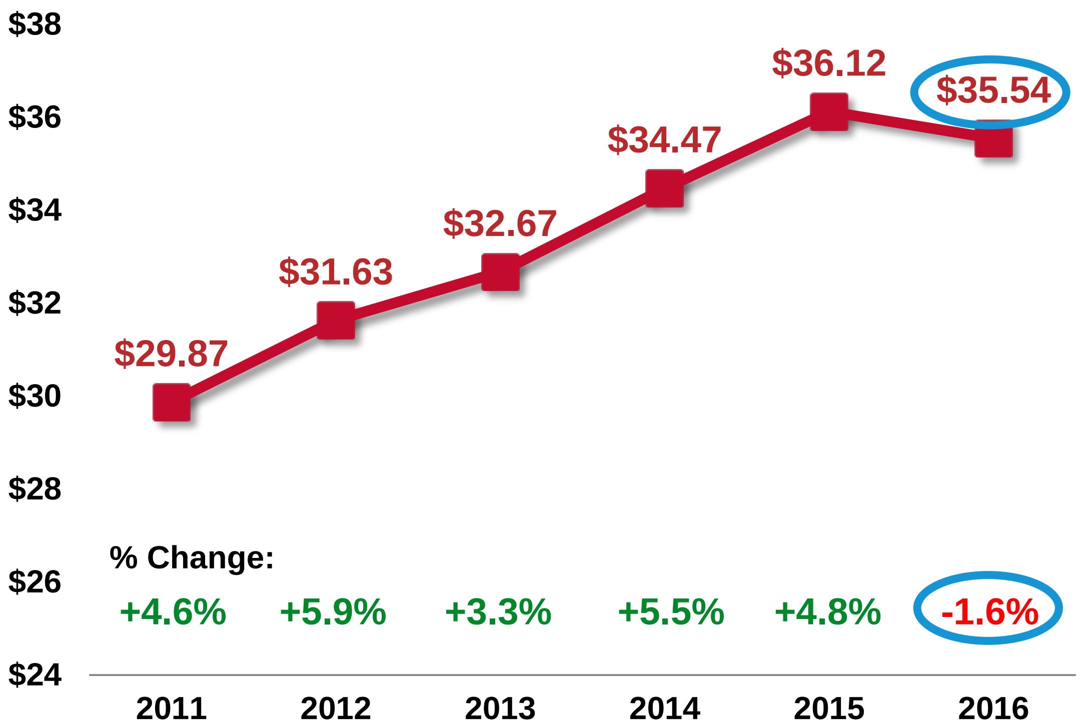
The study examines:

- 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)



Source: DSA's 2017 Growth & Outlook Survey

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

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**.

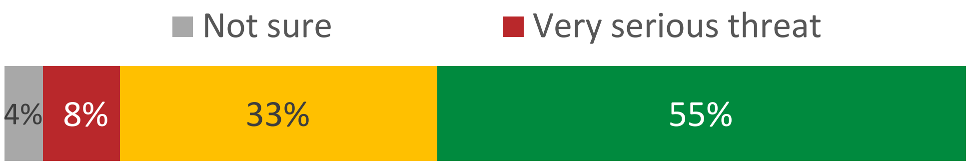
Amazon's Key Strategies are:

- 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?



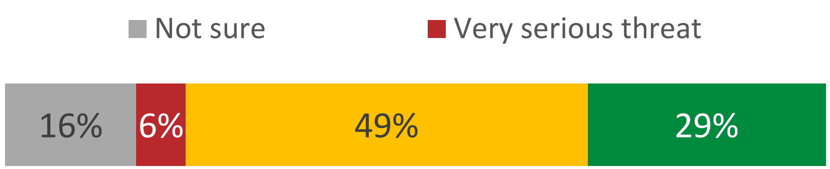
Companies are Taking Action to Remain Competitive…

- **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
- **10%** None

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

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

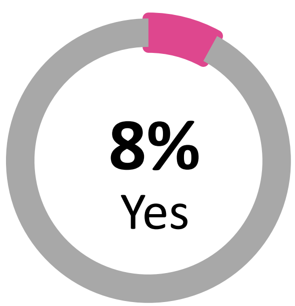
Metrics are missing… KPIs are needed.

- Most companies do not track acquisition and retention costs

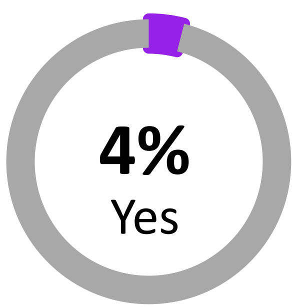
Company tracks this data…

Per Consumer (Outside the Network)

Acquisition Cost
(the cost to attract each new consumer outside the network)

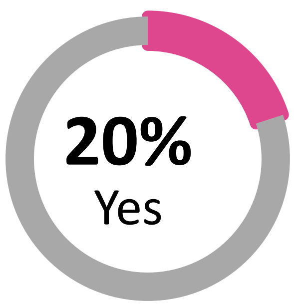


Retention Cost
(the cost to retain each consumer outside the network)

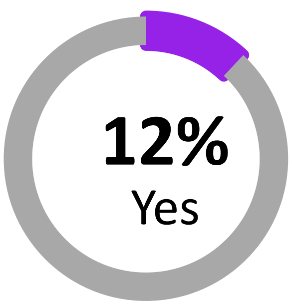


Per Independent Representative

Acquisition Cost
(the cost to attract each new independent representative)



Retention Cost
(the cost to retain each independent representative)



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)

- **66%** Tracking sales by segment
- **62%** Improving engagement with independent representatives
- **55%** Tailoring communications by segment
- **45%** Improving engagement with consumers outside the network
- **28%** Improving engagement with unengaged

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.

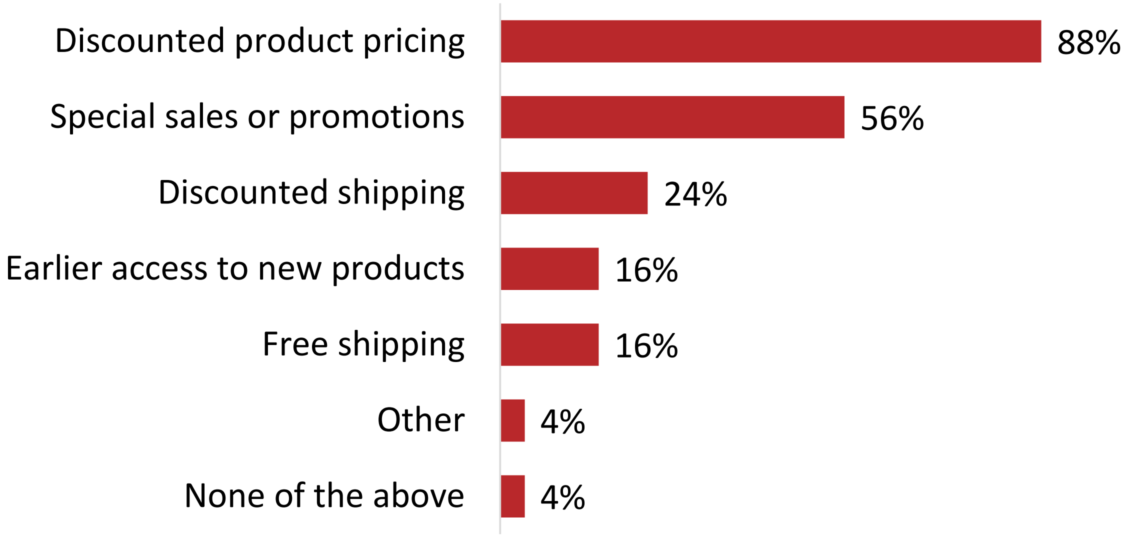
Half (49%) of participating companies have a preferred customer program (among the 49% … 12% have more than one)

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:



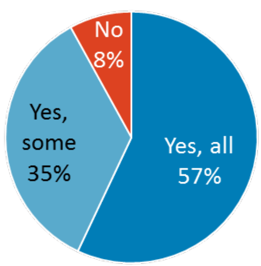
***Reduced Base (n=25):** Among those whose company has a preferred customer program*

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

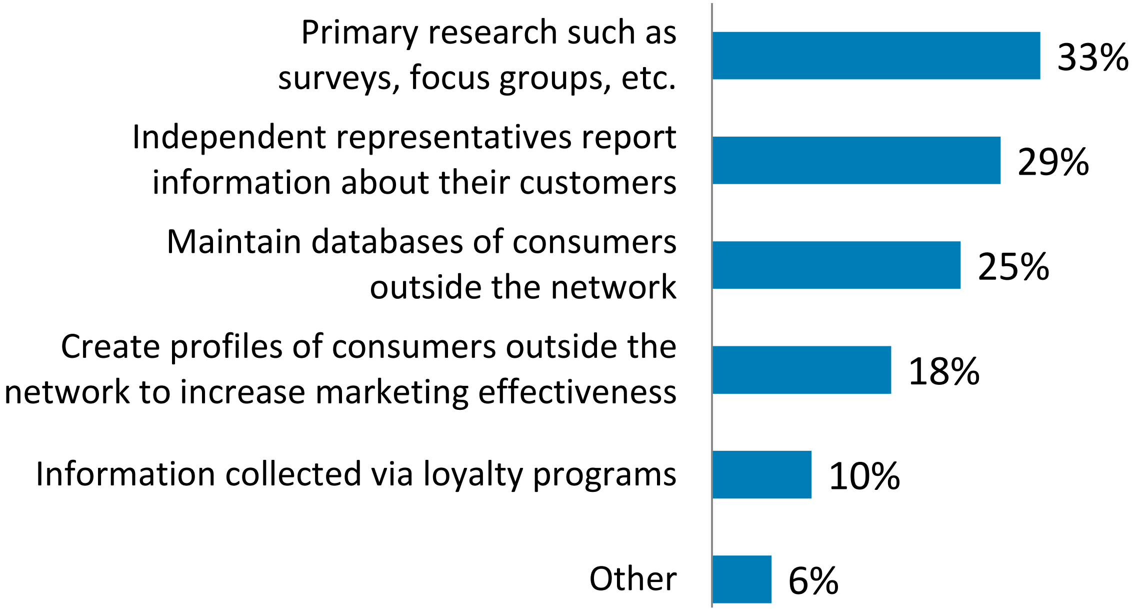
One-third of the companies **actively conduct primary research** among consumers outside of the network

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

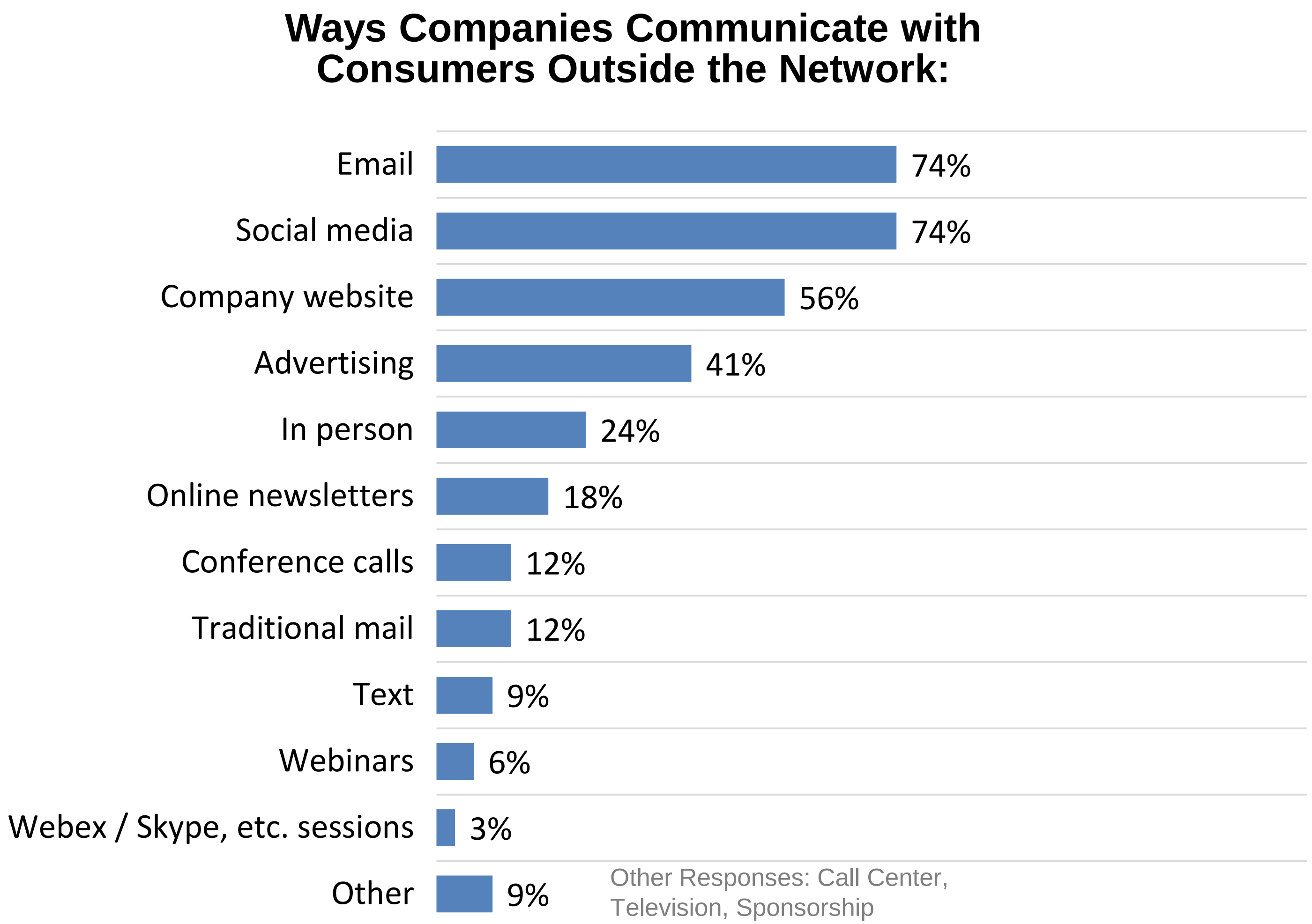
One third of companies actively conduct primary research among consumers outside the network of independent representatives.

- 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:

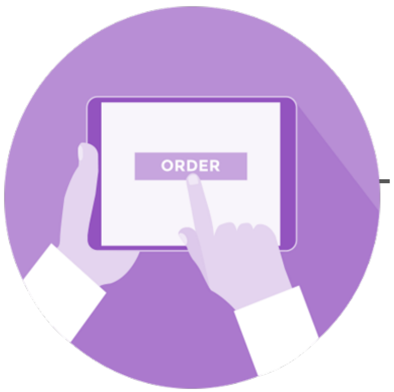


2/3 of companies communicate directly with consumers outside the network; most with email and social media

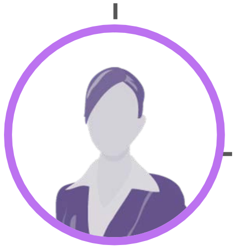


Ordering and Fulfillment Processes: Are Direct Selling Companies Keeping Up?

Half of companies accept orders directly from consumers outside the network



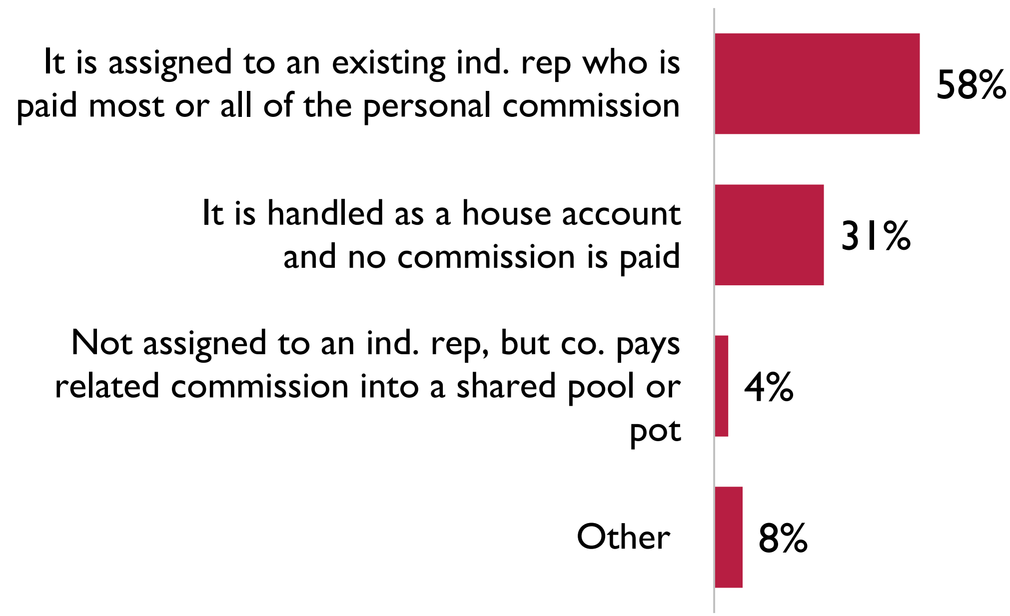
Half (51%)
of companies allow consumers outside the network to order directly



41%
Consumers must connect through independent representative first

8% Not Applicable

How Company Handles Orders Not Connected to an Independent Representative



Reduced Base (n=26)

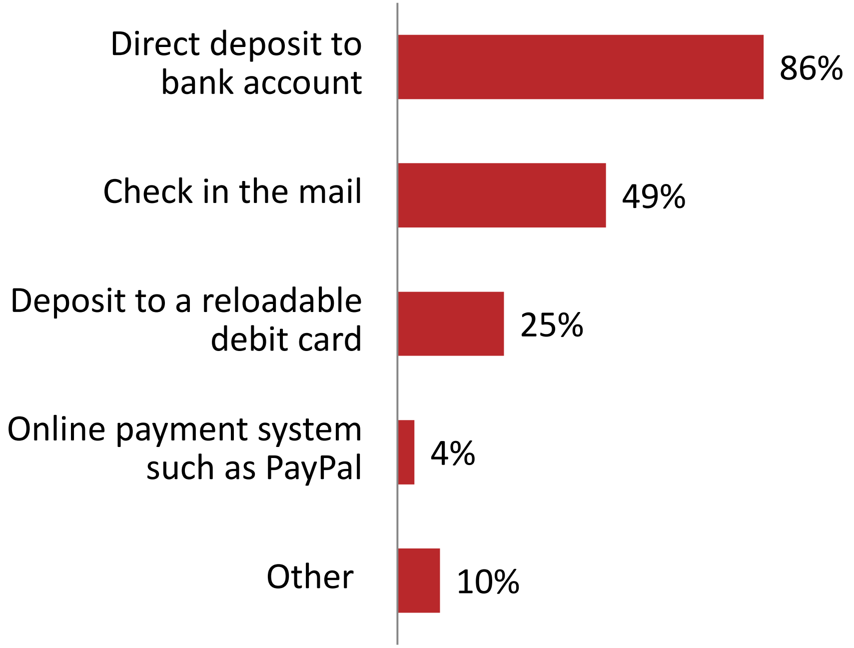
Payments: Are we positioned to compete?

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

Frequency of payment does not meet today's expectations

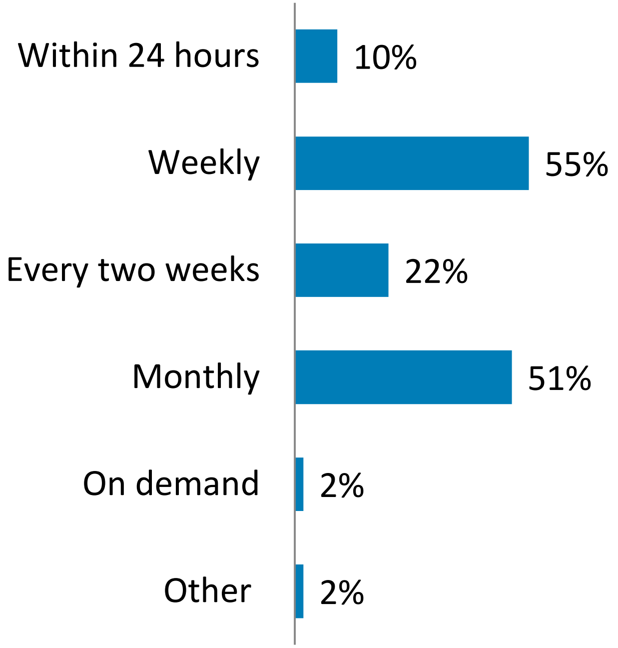
How Independent Reps Are Paid:

(Select all that apply)



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)

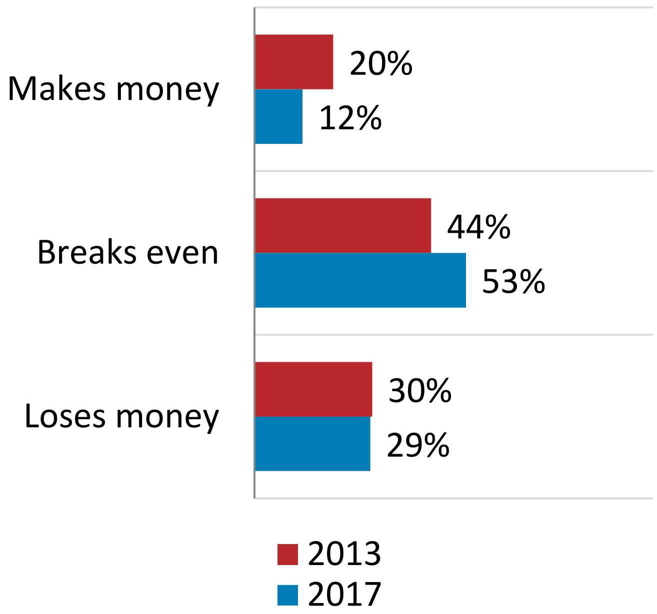
Method(s) Used to Charge for Shipping and Handling Fees to Consumers that Are Not Also Independent Representatives:
(Select all that apply)

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

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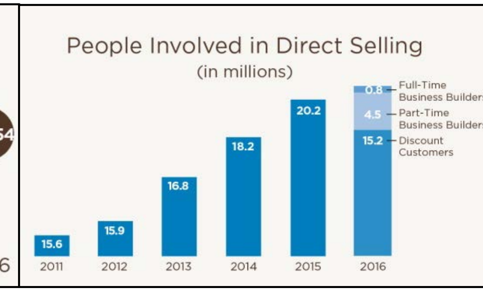
DSA 2018
Growth & Outlook Survey
U.S. Direct Selling in 2017

www.dsa.org

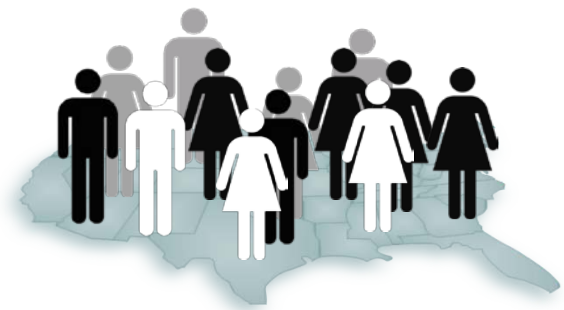
Access the online Growth & Outlook survey at: www.DSA.org/GO2018.
Or, visit www.dsa.org/go2018pdf to download a PDF of the Survey!

2018 Research Objectives

1. Size the direct selling industry



2. Quantify and segment the people involved in direct selling

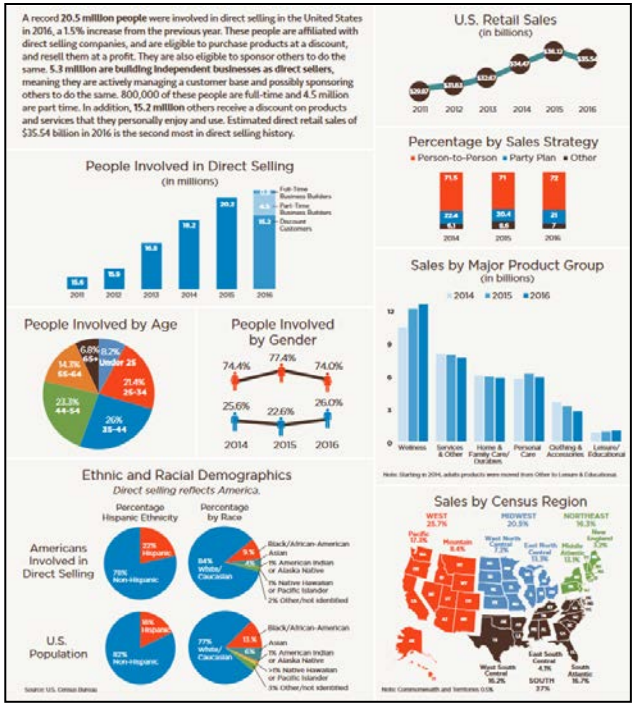


3. Announce results at DSA's 2018 Annual Meeting in San Diego, CA (June 17-19)

2018 ANNUAL MEETING
SAN DIEGO

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**

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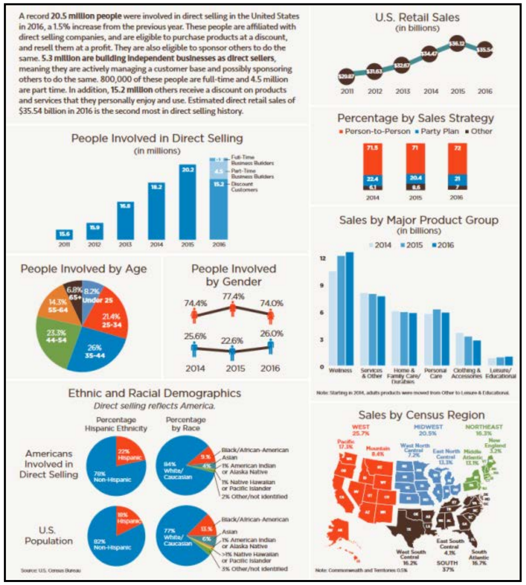
2018 Growth & Outlook Survey Message from Joe Mariano, DSA President



- *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*

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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

DSA DIRECT SELLING ASSOCIATION

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*

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Research Methodology and Confidentiality

NATHAN

ASSOCIATES INC.

DSA's Third Party Research Partner:

Paul Bourquin

Managing Economist

Nathan Associates

Research Process:

- Data collection
- Vetting
- Aggregation
- Analysis

Your data will be kept entirely confidential

Any Questions?

DSA:

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Phone: (202) 416-6443
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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

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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

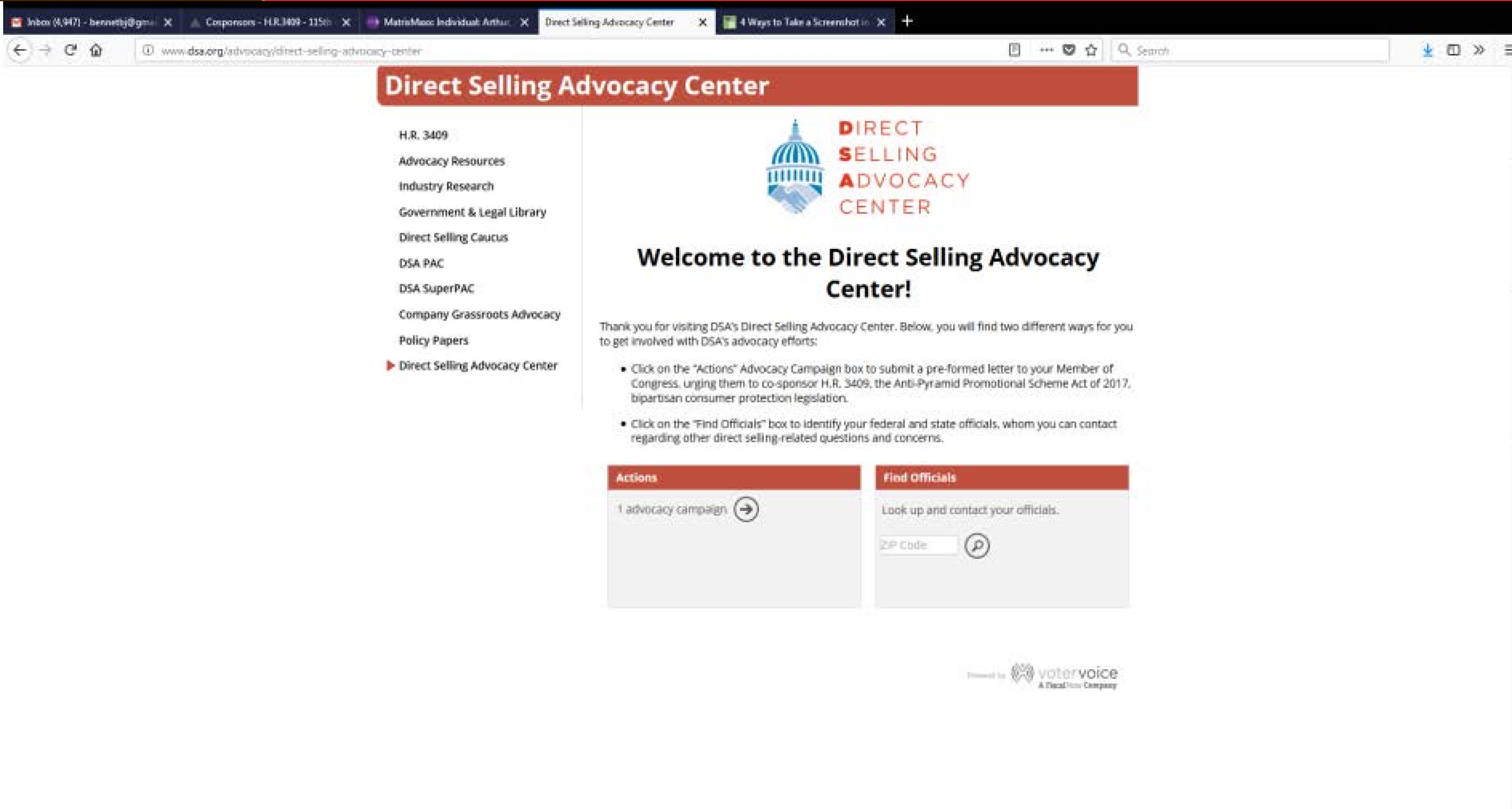
H.R. 3409 and Similar Bill in the United States Senate

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



Any Questions?

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