The HIDDEN Industry

The New Zealand Direct Selling Industry

Social and Economic Impacts

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Contents

How has the direct selling industry changed your lifestyle?

"I have learnt 'Joy' - I learned I could change my self image and have grown personally"

1.0 Executive Summary

This report presents the findings of a study into the social and economic impacts of the direct selling industry on the New Zealand economy and on the lifestyles of those involved in the industry. The study was commissioned by the Direct Selling Association of New Zealand.

The direct selling industry of New Zealand is an industry about which little has been written, and yet in 1998 it had total sales of some $ NZ 185 million and involved 90,050 independent sales people. Over the past ten years retail sales have increased at an average of 15%, while the sales force has increased at an average rate of 40% per annum in the corresponding period. Internationally, the industry is huge, with total global sales of $US 81 billion. Some of the biggest direct selling industries are to be found in Japan($30 billion), United States($22 billion), and Brazil($4 billion).

While it is easy to detail total retail sales, it is more difficult to show the true impact of an industry on a national economy as dollars expended by the industry flow through the economy and their impact multiplies. The aim of this report is to detail not only the economic impact, but also the social impact of direct selling, in particular, the social impact of direct selling on the sales force.

The direct selling industry is unique in a number of ways. Firstly, the industry has a small group of permanent employees, but a large and diverse group of independent sales people. In this way it is easy to be misled as to the true size of the industry. Permanent employees numbered only 380 in 1998, yet the independent salesforce was some 90,050 people. And so the description of the industry as the '*hidden industry*' is very apt, because it is an industry which operates in a non traditional way. That is, there is little formal marketing using traditional media such as television, print or radio, and therefore the general public see little of the industry through the media. Thirdly, most of the sales activity takes place at home, or in the clients home, and often at night. So again, there are no traditional forms of wholesale or retail outlets at which consumers and the public would find out about products and learn more about the nature of the industry. In a sense the industry has no *shop window*. And yet, the industry involves many New Zealanders, has over $185 million in sales and contributes in a number of ways to the New Zealand economy.

Presented below are some of the key findings from the results of the study. Surveys were sent to a random sample of agents and distributors representing all of the direct selling organisations who are members of the New Zealand Direct Selling Association. From this mail questionnaire a sample was obtained of 410 people currently involved in the direct selling industry as distributors or agents. They represented a wide cross section of companies, experience, and Levels of success in the industry.

Summary Highlights

The survey of distributors and agents, who represent a large part of the selling force of the industry, and number over 90,000 people, provided an insight into how their involvement in the industry has impacted on their own lives.

For the most part, those involved in the industry believed they had clearly benefited from that involvement. While some found it was not for them, and for others the rewards were not as great as they had expected, there was overall very strong positive attitudes towards their direct selling occupation.

Some of the key findings were:

- People involved in the direct selling industry come from a very wide background
- Over 70% of the sales force were female
- Close to 60% were aged 35-55
- Perhaps one of the most significant results of the study was the finding that 80.0% of those surveyed felt their lifestyle had improved as a result of their involvement in the direct selling industry.
- 90.0% felt they had learnt new skills or improved old ones as a result of being involved in direct selling
- 93.0% agreed their communication skills had improved
- 87.5% felt they were more confident
- 85.5% felt they were more motivated
- 83.5% considered they were more independent
- 79.0% believed they had a new direction in life

1.1 Involvement in the industry

Length of time

- Of those surveyed, 39.5% had been involved in the direct selling industry for five or more years, while 20.5% had been direct selling for 3-5 years, with 27.0% for 1-2 years.

Part or full time

- 87.5% were involved in direct selling on a part time basis, 12.5% were full time
- 71.0% had other employment, besides their direct selling business.

Hours per week

- On average, 31.0% spent 2-10 hours per week involved in their direct selling business, 26.0% 11-20 hours per week, and 17.0% 21-40 hours per week. Only 8.0% spent more than 40 hours per week direct selling.

Who is involved in direct selling?

- People involved in the direct selling industry come from a very wide background. Most common were people with a sales and service background(23.5%), followed by those involved in occupations such as teaching or nursing(17.0%), office & clerical(12.5%) and managerial positions(12.0%). Homemakers/housewives and self employed people each accounted for around 8.0%

1.2 Lifestyles

Lifestyle Change

- One of the most significant results of the study was the finding that 80.0% of those surveyed felt their lifestyle had improved as a result of their involvement in the direct selling industry.
- Respondents felt their lifestyles had changed in a variety of ways, but the most significant ways were:

	%
Greater income	36.5
Greater people contact	16.5
More flexible working hours	15.0
New friendships	14.0
Greater confidence and self esteem	13.0
Significant personal development & growth	10.0
Improved lifestyle	8.5
A more positive attitude	8.0
More travel	4.5
Improved health	4.0

1.3 Skill development

- As well as lifestyle improvement, respondents also considered their skills had improved as a result of their participation in direct selling. In fact, for many, this was the most significant result of their involvement in the industry.
- 90.0% felt they had learnt new skills or improved old ones as a result of being involved in direct selling

- The most common new skills that they had learnt were

	%
People skills	36.5
Communications skills	28.5
Improved confidence and personal development	21.0
Sales and marketing skills	14.0
Business and financial skills	11.0
Time management	8.0
Public speaking	8.0
Listening skills	5.0

1.4 Attitudes toward Direct Selling

- Respondents were asked to give their response to a range of attitude statements, using a four point agree/disagree rating. Here is a brief summary of the results
- 76.0% agreed their income had been improved as a result of direct selling
- 75.0% believed their lifestyle had improved
- 88.5% agreed they had obtained new job skills
- 93.0% agreed their communication skills had improved
- 87.5% felt they were more confident
- 85.5% felt they were more motivated
- 83.5% considered they were more independent
- 79.0% believed they had a new direction in life

The social aspects of the study revealed an industry in which many people consider they have had an opportunity to improve themselves, particularly in the areas of personal confidence, motivation and business skills. While not appealing to everyone, for 80% of respondents, they believed the industry had had a positive impact on their lives and lifestyles.

1.5 Economic Impacts

One of the major objectives of the study was to try and better understand the impact the direct selling industry was and is having on the New Zealand economy. While no dollar figure should be considered absolute, particularly when using multipliers and considering the diffusion of expenditure as it moves through the economy, the study has found a number of key features of the industry which would suggest the industry is having a significant impact on an economy such as New Zealand's.

1. The independent sales force are not employees, but are seen as a large force of small business people, each caring for their own business, and incurring expenditures to make their business work. These expenditures take the form of such things as travel and accommodation(for example, to attend educational seminars, visit clients, etc), transport and vehicle costs, home office expenses(telephone tolls, computers, stationery), child care(with a sales force which is over 70.0% female, child care is a major cost).

2. Working along side this army of sales people, is the industry organisations and companies which in 1998 it is estimated had operating expenditures of $112 million(this is excluding those expenditures which are likely to have leaked out of the economy, for example in the form of cost of imported goods). Thus the buying of goods and services within New Zealand to service their industry, will provide the expenditures from which other New Zealand industries derive income.

3. It is worth noting four other aspects. Firstly, no account has been made of the significant contribution the industry makes to training and development each year. This contribution has not been measured in an economic way, but the contribution is large, and this can be best shown by the comments made from the sales force, where the personal development and business skills developed from industry training are one of the most important benefits to be derived from an involvement in direct selling.

4. Secondly, no account has been made of the contribution the industry makes to the economy by way of tax. Again, this is likely to be significant and at a variety of levels, from direct taxes, indirect sales taxes, tariffs and duties.

5. Thirdly, there is a small but growing export business involving direct selling association member companies. Revenues from these exports will also be contributing to the national economy in some way.

6. And finally, the direct selling industry would be one of the biggest users of incentive travel, and the incentive industry has grown on the back of incentives and reward systems provided for direct selling sales people. This market is likely to continue to grow in future years.

Therefore, incorporating what we know of the industry into an economic impact model which takes into account the downstream effects(by way of multiplier analysis) of expenditure by the direct selling industry, we can arrive at an approximate value on the total output of the industry, after taking into account expenditures which leak from the national boundary, such as the costs of importing goods, and it is worth noting that the industry is a large importer of goods from off shore.

Because many of the distributors and agents involved in the industry treat their direct selling activity as a business and thus see it as a tax entity, they are able to quite accurately provide details of expenditures relating to their direct selling business. As well, the business and financial skills they have learned as a result of this involvement, meant they were able to itemise their costs/expenditures, all of which have a downstream effect on the economy.

The independent sales force accounted for $6,329 worth of expenditures as they went about their direct selling business. Held against a sales force numbering 81,045[1] people in 1998, it is easy to see the significance of such expenditures on a national scale, with total expenditures of $512 million, and when combined with industry expenditure of $112 million, a combined total of $625 million is arrived at. It is important to note that much of this expenditure is likely to be at a regional level, as the sales force goes about its business.

And so, once the flow-on effects of this money are taken into account, and the impact of each dollar expended is assessed at each level of the economy, we arrive at a total economic output of $1.67 billion.

1.6 Concluding Comments

Social and Economic Impacts

The effect of being involved in the direct selling industry appears, for the most part to be very positive. It is perhaps not so much the monetary gain from direct selling which is most noticeable, although that is a major factor in improving lifestyles, but perhaps more interesting is the significant improvement in skills levels and personal development, which allow people to be more confident in themselves and better able to communicate with others and manage their own business.

The opportunity for personal development is important to note, for it gives people the confidence to try new things, and armed with better sales and marketing skills, and better business management skills, then the individual or couple is in a better position to develop a successful small business. On their own, without the support of a large organisation to provide support in such areas as business and financial management, personal development, sales and marketing, it is doubtful such people would have been exposed to such education or gained new skills.

The profile of those involved in the industry suggests that an involvement in direct selling provides people with an avenue to not only supplement their income, but also a chance to improve their lifestyle they may not have otherwise got. In particular, mention should be made of how the industry has succeeded in creating part time employment for women, and given an educational boost to those people who did not go on to tertiary training. The profile of the distributors and agents in this sample, showed that 60% had not gone past secondary school education.

Perhaps the social impact of direct selling on the sales force can be best be summed up by these comments:

“Communication, confidence & independence are skills I have improved over the last two years. The main thin I have connected with in my mind and it comes up in all other areas, is that one needs to have a goal”

“It is knowing that if you apply yourself, you can do anything. Freedom of choice”

“There is no better opportunity to improve lifestyle and income than in direct sales”

The economic impact of the industry has also been shown to be significant, and wide-spread, with perhaps the surprising conclusion that it is the sales force, which also impacts heavily on the economy. This impact is not so much in the commissions and bonuses paid by the companies to the sale force, which are accounted for at a household level, but is seen more in the expenditure undertaken by the sale force to support their business.

Policy Issues

There are some policy issues which deserve mention.

- The direct selling industry thrives on the philosophy of 'free enterprise', where the onus is on staying motivated and focused, with goal setting an important element of the industry. That is, it is not an industry for those who are not prepared to work hard, or lack goals. However, it does provide a way for some people to positively alter their life and lifestyles, and with very little government support required.

- There are few barriers to entry, and an opportunity exists for people from all walks of life to achieve, as evidenced by the very wide range of occupations of the sales force.

- The industry also provides an opportunity for women to either re – enter the workforce in a way which is flexible enough to work around family commitments, or allows others to supplement low incomes

- The direct selling industry also provides an opportunity for people of middle age to change career paths, either as a result of it being forced upon them or by their own volition. The fact that close to 60% of respondents were aged 35-55 suggests that the industry is providing some people with either other income at a time when cost of living is likely to be high(i.e. family costs), or is providing them with a new career option.

- Another feature of the industry that must be of some interest to government is the industry's strong educational and vocational training. The industry offers a range of training and re-training opportunities, and at no cost to government. The upskilling of the sale force is a significant non monetary benefit to the national economy.

Industry Issues

There is no doubt that the direct selling industry offers considerable benefits to the New Zealand economy. The social and economic impacts are for the most part positive, and yet the industry is still relatively unknown. It has been suggested that this is because of the non traditional way the industry operates, with little direct advertising, few retail outlets, an independent sales force, and with most business done at home. Therefore, it is perhaps not surprising little is known about the industry. Unfortunately, in the absence of any direct promotion or positioning, it is likely to remain the *hidden industry* and more concerning, the media focus will remain with the fringe, rogue operators who do the industry a disservice, and only reinforce negative perceptions of the industry.

It is recommended here that the industry needs to consider how it should position itself and undertake to legitimise the industry, and make it more of a main stream marketing activity, in many ways no different to *personal selling, direct marketing,* or for that matter *services marketing and tourism.* All have been made legitimate in recent years, and mainstreamed, particularly in the area of tertiary education. The fact that no university marketing department has modules in direct selling, let alone modules within a paper, speaks for itself.

The industry needs to consider how it can best position itself, and the appropriate mediums to use. Some suggestions are proposed here:

- The strong policing of undesirable operators, who bring the whole industry down
- The development of generic information about the industry
- The development of promotional material about the industry(e.g. industry video), piggybacking on the strength of individual brands within the industry(Avon, Amway, Nutrimetics, etc)
- The development of educational material for use in tertiary institutions
- The development of papers in direct selling taught within tertiary institutions
- The development of research programs to enable greater understanding of the direct selling industry and disseminate such information to a wide national and international audience.

The direct selling industry offers much to the New Zealand economy, and has the opportunity for considerable growth, judging from overseas evidence. Economic impacts are significant, but perhaps of even far greater importance, and the major finding of this report, is the social impact the industry can have on its independent sales force, and its ability to allow people to improve their lifestyles, provide them with renewed confidence, motivate them and in some instances give them a new direction in life. Those benefits are likely to be far greater to a nation economy, particularly when lives today are full of change and uncertainty.

METHODOLOGY

2.1 Information Requirements

Because the study encompassed both social and economic impacts of the direct selling industry, there were a number of informational requirements:

1. Length and nature of involvement
2. Lifestyle changes as a result of involvement in the direct selling industry
3. Skill development issues
4. Attitudes to direct selling
5. Expenditure on direct selling business
6. Demographic profile

For the economic impact study, the information required was:

1. Direct selling industry aggregated financial information to establish operating expenditures
2. Individual company financial information
3. Individual expenditure by distributors and agents
4. Relevant national industry multipliers

2.2 Methodology employed

Two surveys were employed to obtain the relevant information

Survey One – Survey of direct selling distributors and agents

This survey entailed sending a mail questionnaire to a random sample of distributors and agents representing a cross section of direct selling companies and organisations.

From a mail out of some 1500 names, 416 responses were obtained, with a final usable sample of 410, which represented a 28.0% response.

Survey Two – Survey of Individual Direct Selling Companies and Organisations

All members of the Direct Selling Association of New Zealand were mailed a survey and request for financial information.

Fifteen[2] companies and organisations responded to the survey which represented a response rate of 55%, which is a good response to an industry based survey. The organisations who responded represented 75% of total retail sales in the industry.

2.3 Margin of Error

To ensure that there was a sufficiently low margin of error and bias in the data, it was important that

a) a wide cross section of distributors and agents were canvassed for their opinions
b) a wide cross section of industry organisations were surveyed to obtain their financial data

In both cases, there was a sufficiently good response to ensure that the margin of error at 95% confidence intervals was plus or minus 5.0%

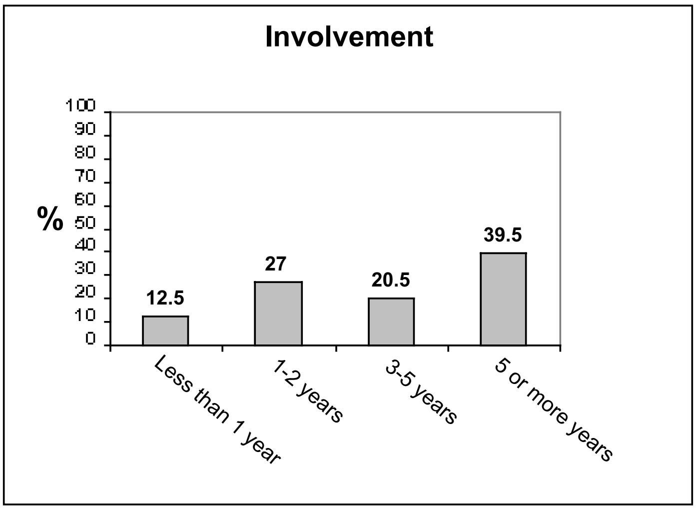
RESULTS

3.0 RESULTS

3.1 Involvement in the Direct Selling Industry

3.1.1 Length of time in the industry

Length of Time	Frequency	Percentage of Sample
Less than 1 year	52	12.5
1-2 years	111	27.0
3-5 years	83	20.5
5 or more years	162	39.5
TOTAL	**408**	**100.0**

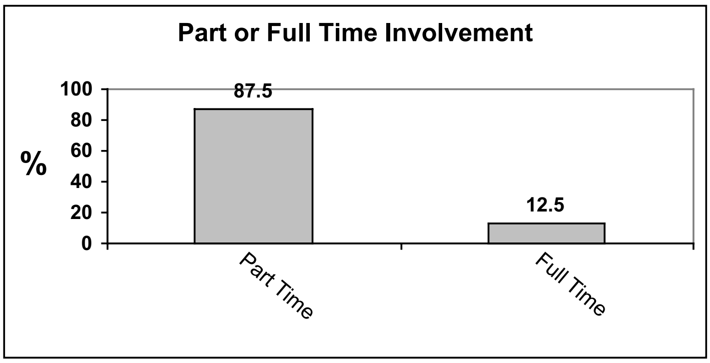


Two-thirds of respondents, had been in the direct selling industry for more than three years

3.1.2 Part or Full Time Involvement

Involvement	Frequency	Percentage of Sample
Part Time	354	87.5
Full Time	51	12.5
TOTAL	405	100.0

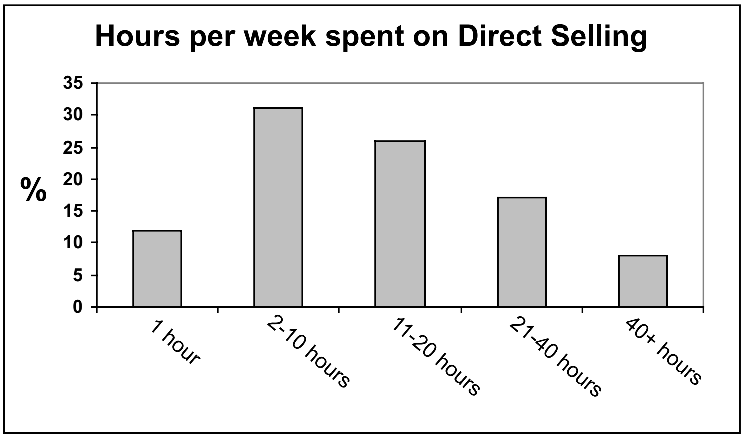
For most people, the direct selling industry is a supplement to another job, or they have other responsibilities(e.g. a housewife and mother), and therefore can only commit to direct selling in a part time capacity.



3.1.3 Number of hours per week

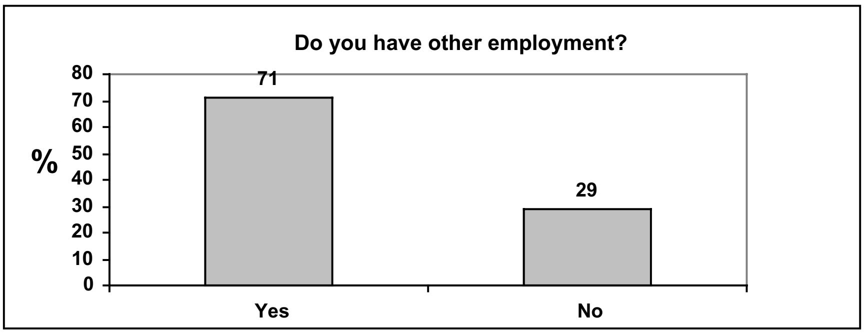
	Frequency	Percentage of Sample
1 hour per week	47	12.0
2 – 10 hours per week	177	31.0
11 –20 hour per week	102	26.0
21 – 40 hour per week	52	17.0
40+ hours per week	32	8.1
TOTAL	**396**	**100.0**

The part time nature of the industry is reflected in the number of hours worked, with close to 70% working less than 20 hours per week, and 43.0% spend less than 10 hours per week on direct selling. However, given that most are also involved in another job, then these hours are understandable

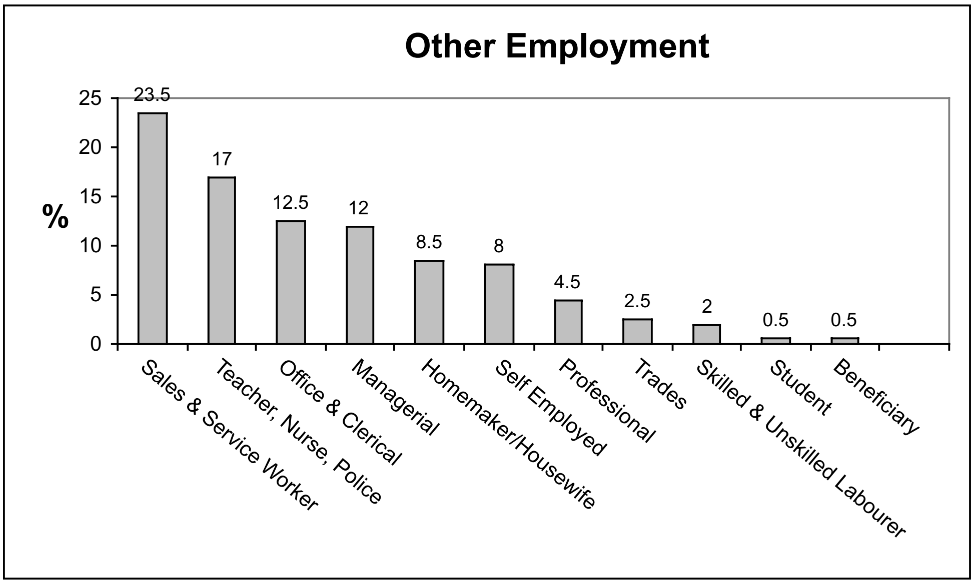


3.1.4 Other Employment as well as Direct Selling

Do you have another job as well as your direct selling?	Frequency	Percentage of Sample
Yes	289	71.0
No	118	29.0
TOTAL	**408**	**100.0**



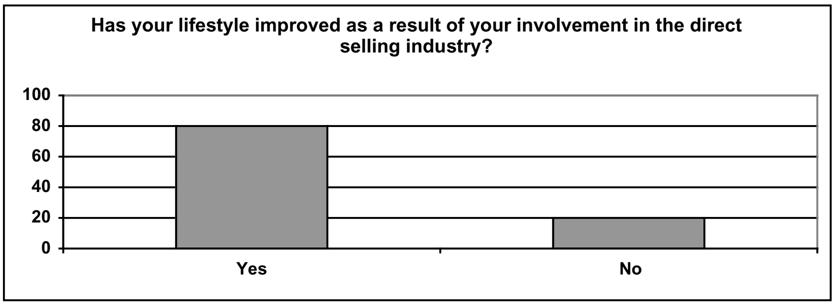
Other employment	Frequency	Percentage of Sample
Sales & Service Worker	62	23.5
Teacher, Nurse, Police	44	17.0
Office & Clerical	33	12.5
Managerial	31	12.0
Homemaker/Housewife	22	8.5
Self employed	21	8.0
Professional	12	4.5
Trades	7	2.5
Skilled & Unskilled Labourer	5	2.0
Student	1	0.5
Beneficiary	1	0.5
Total	262	100.0



With 71.0% of respondents having other employment, occupations were widespread, although they did tend to concentrate in the sales and service areas, followed by teaching, office and clerical and managerial positions.

3.2 Lifestyle Change

Do you consider your lifestyle has improved as a result of your involvement in direct selling?	Frequency	Percentage of Sample
Yes	321	80.0
No	85	20.0
TOTAL	**407**	**100.0**



With over 80.0% of respondents having indicated that their lifestyle has improved as a result of their involvement in direct selling, the reasons people stated for this improvement were very positive:

How has your lifestyle improved?	%
Greater income	36.5
Greater people contact	16.5
More flexible working hours	15.0
New friendships	14.0
Greater confidence and self esteem	13.0
Significant personal development & growth	10.0
Improved lifestyle	8.5
A more positive attitude	8.0
More travel	4.5
Improved health	4.0
More motivated	3.5
Greater knowledge of business practice	3.5
More family time	3.0
More involved with the community	3.0
Better people skills	2.5
Better social life	2.0

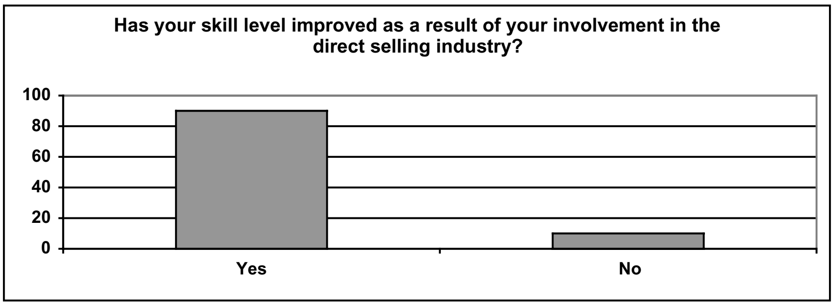
There were also some individual comments worth noting:

- "More confident, feel more focused"
- "I feel I have more freedom, more options"
- "I can work when it suits me and I get paid for how hard I work. I have more time with my family and more quality time"
- "My direct selling business gave me the vision and confidence to become self-employed. My lifestyle improvement has been due to direct selling, retailing, clerical and teaching – all in a days work in my business".
- "Talking to and meeting new people every day. Learning communication and people skills, personal growth and development"
- "Helped regain my confidence to go back to teaching. Pressure relieved as added income has lessened financial problems. Because my confidence has risen I have found life to be happier".
- "Not as stressed raising and providing for my child's needs, e.g. before and after school as well as holidays. Building self confidence and setting goals".
- "Getting out into the community and meeting new people. Learning to develop a business. Developing my skills by putting them into practice. Learning management skills and learning to improve how to manage money wisely. I've gained confidence and more motivation with a change in my lifestyle."

3.2.1 Skill Improvement

Do you consider you have learnt new skills or improved old ones as a result of your involvement in direct selling?	Frequency	Percentage of Sample
Yes	362	90.0
No	40	10.0
TOTAL	**402**	**100.0**

While 80.0% considered their lifestyle had improved, there was an even stronger response to whether they had learnt new skills, with 90.0% stating they had learn new skills as a result of their involvement in direct selling.



What skills have improved?	%
People skills	36.5
Communications skills	28.5
Improved confidence and personal development	21.0
Sales and marketing skills	14.0
Business and financial skills	11.0
Time management	8.0
Public speaking	8.0
Listening skills	5.0
More goal focused	4.0
Better product knowledge	3.5
Leadership skills	3.5
Relationship skills	3.0
Customer service skills	2.5
Patience	2.0
More proactive/positive	2.0

Many of the skill improvements related to communication and people skills. However, there was also a strong indication that skills had been improved in business management, marketing and sales, and from a personal viewpoint, it was clear, respondents indicated far higher confidence, self esteem and a more positive outlook on life. So the three areas of improvement most mentioned were communication, self confidence and business management.

The above table highlights a positive attitude towards the industry by those involved in it, particularly in terms of skill development and lifestyle improvement. Of course not all people surveyed felt their lifestyle had improved. Presented are below are some of the reasons why:

- Many evening meetings become hard on a family
- Not as much money as had hoped for
- Took a lot more time than expected
- More costs/expenses involved than expected
- Shunned by friends

3.2.2 Attitudes toward Direct Selling

Respondents were asked to express their attitudes to direct selling by responding to a series of agree/disagree statements using a four point scale. The responses are outlined below:

Attitude Ratings	Agree	Disagree
Improved your income	76.0	23.5
Improved your lifestyle	75.5	24.5
Given you new job skills	88.5	12.0
Improved your communication skills	93.0	6.0
Made you more confident	92.0	8.5
Made you more motivated	87.5	12.0
Made you more independent	83.5	16.5
Provided you with a new direction in life	79.0	21.0

Attitude Statements

Attitude Ratings	Strongly Agree	Agree	Disagree	Strongly Disagree
Improved your income	16.5	59.5	19.0	4.5
Improved your lifestyle	21.0	54.5	21.0	3.5
Given you new job skills	35.0	53.5	9.5	2.5
Improved your communication skills	49.5	43.5	5.0	1.0
Made you more confident	45.0	47.0	7.0	1.5
Made you more motivated	39.5	48.0	10.5	1.5
Made you more independent	38.0	45.5	14.0	2.5
Provided you with a new direction in life	37.0	42.2	18.0	3.0

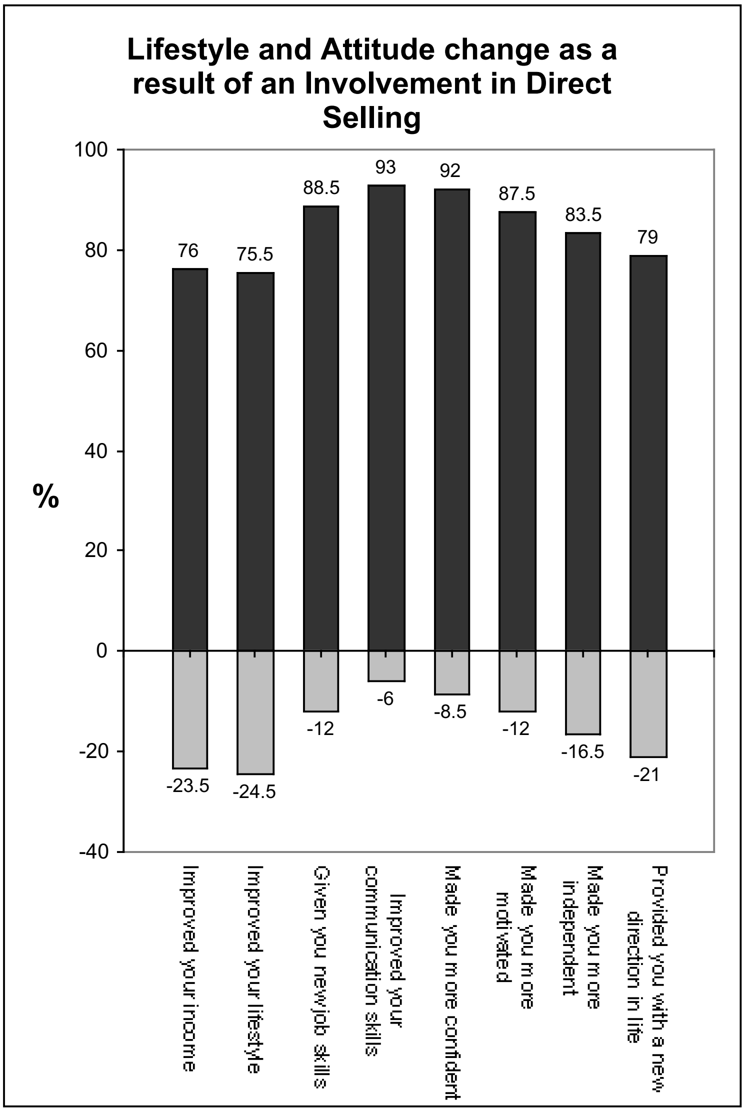
Overall, those surveyed were very positive about their involvement in the industry, as evidenced by the above results. The comments people made about the industry also reinforced their point of view:

General Comments	%
Meet great people and new friends	13.5
Has provided a purpose and focus in my life	9.5
Has given me independence	8.0
More flexibility in work hours	7.0
More positive outlook	7.0
Busier than expected	7.0
Realising you can choose your lifestyle	6.5
Has allowed me to help others realise their goals	5.5
Am more optimistic about the future	5.0
Effort is reflected by rewards	4.0
Meeting positive motivated people	4.0
Confidence has improved	4.0
Able to work from home	3.5
The best thing that has ever happened to me	3.0

Of course, not all comments were positive, and there were those who had discovered the industry was not for them. Some had had negative experiences, their friends had shunned them, the income was not as good as they had expected, and there was more pressure placed on family life rather than less. However, on the whole people were very positive about their direct selling experience, and while for some the income was not yet what they were hoping for, it was clear they had benefited in other ways.

Again, some of the individual comments are interesting:

- "It is knowing that if you apply yourself, you can do anything. Freedom of choice"
- "Relationships towards other people, family, friends, up-line and associates have improved. The freedom to believe and give hope to others"
- "It has made us aware you do not have to sit down and settle for anything. You have a choice to do better"
- "The main gain from personal selling = courage – to take up business projects, be more open minded about the possibilities regarding future goals"
- "There's never a dull moment, or an uncommitted in one in my life now"
- "My financial situation has not improved yet, but I have learnt to have a better attitude and understanding"
- "We are mixing with positive motivated people who enjoy helping people so this has in turn helped us to appreciate what we have with the prospects of improving our world."
- "If we had never made a cent out of ….. for the changes in our lives, we would do it all again."
- "The biggest improvement was confidence, this has improved many aspects of my life as my self esteem improved."
- "The increased confidence has made me try new things where once I would have been too scared to do. I have stepped out of my comfort zone."
- "There is no better opportunity to improve lifestyle and income than in direct sales"
- "Best thing I did since arriving in NZ in 1959"
- "Joy: I learned I could change my self image and have grown personally"
- "Communication, confidence & independence are skills I have improved over the last two years. The main thin I have connected with in my mind and it comes up in all other areas, is that one needs to have a goal"



Note: This graph shows the percentage who agreed with the statement versus those that disagreed. For example 76% agreed their lifestyle had been improved, while 23.5% disagreed.

As can be seen respondents believed the greatest benefits of their involvement in direct selling had been their improvement in communication, their increased confidence and motivation, and greater level of skills.

Summary

This study of social impacts on those in the industry has thrown up some interesting results in terms of the very positive attitudes towards the direct selling industry held by members of the independent sales force. While most had seen an improvement in lifestyle and in supplementary income, clearly the most compelling results were the way in which people believed they had benefited in a more personal way. That is, they believed they had improved 'as people', they were more confident, more motivated, better communicators, and had developed new skills, particularly business and financial skills. This result has thrown up the industry in a new light, for in many cases it is helping people with limited educational qualifications, and/or those who have reached a stage in their life requiring a change in direction, either by their own making or that which has been forced upon them. And so a very positive outcome of the industry is the *opportunity* it provides a certain sector of the New Zealand population who are looking for a positive change in their life.

Not all respondents felt so positive about the industry. For some, it had not provided the improvement in lifestyle they had hoped for. For others, it had placed pressure on relationships, either friends or family. Many had recognised that it required a considerable investment in time and money, and that because they were essentially operating their own small business, it came with all the ups and downs, trials and tribulations that small business people go through in the early years of a business. The direct selling industry requires certain skills to succeed. The first step for many is to overcome a *fear of rejection*, *confidence to make cold calls, an understanding of how to close a deal, business and financial skills, the need for flexible work hours, and most of all the motivation to keep going when things are tough.,* In many ways, the requirements are no different from any other business or endeavour in life, but sales and selling are perhaps the most difficult of occupations in which to achieve success, and so it is not surprising that for some people it does not bring the rewards hoped for. As well, there have been certain organisations which have preyed on people's search for a better lifestyle, and so some people have been badly affected by rogue organisations working on the fringes of the main direct selling industry. It is up to the industry to strongly police these rogue organisations which discredit the industry, and prevent it from obtaining a more legitimate industry position.

But for all the 20% of people who had not benefited from their involvement in direct selling, there was 80% who believed they had benefited in a number of ways, and the industry should take great heart from this, for while monetary benefits were important, most felt the greater return had been in non monetary benefits such as *more confidence, improved business, selling and communication skills, greater motivation, and for many a new direction in life*. These are benefits few would be aware of outside of the industry. The task now is to communicate these benefits to a wider audience, and to better control how the industry is portrayed. If no such pro-active position is taken, then the market will continue to develop its own perception of the direct selling industry, real or not, but most certainly based on its current portrayal in the media.

3.3 Financial Matters

3.3.1 Expenditure on direct selling business

Respondents were asked to provide annual expenditures related to their direct selling business/involvement. Because of the necessity for many to act as a business, most were able to provide quite accurate figures. The ranges varied from very minimal expenditure right up to some who for example spent over $40,000 on some expenditures in a year. However, the important issue is that these are expenditures which are unrelated to what the direct selling companies spend in New Zealand on their own business, and therefore constitute another form of input into the New Zealand economy.

Per annum expenditure on individual direct selling businesses

Direct Selling Related Expenditures	Average Annual Expend $
Travel/Transport	1920.00
Accommodation	860.00
Entertainment	535.00
Child care/baby sitting	683.00
Other direct selling related expenses (telephone, seminars, clothes, etc)	2333.00

4.0 The Economic Impact of the Direct Selling Industry on the New Zealand Economy

4.1 Background to Economic Impact Studies

Why undertake economic impact studies?

The number of economic impact studies has increased in recent years for a variety of reasons. Most notably, government and local authorities have sort to establish the economic value of certain industries and events, particularly those for which they have provided financial support. Most commonly, events, and stadium and tourism development have been the focus of many economic impact studies. In fact, many local bodies have developed their own set of regional multipliers for the specific use in such studies.

As well, organisations such as sporting groups, event organisers and industry representatives have sought to show the economic contribution of their particular, activity, event or industry on local, regional or national economy. The depth of analysis provides the sport, developer or event organiser the evidence of the economic benefit of such activity, and thus a case for the council or funding body to provide support, be it financial or in kind.

So, in general there are a number of reasons economic impact studies are undertaken, in particular with those which make use of economic multipliers:

- the ability to compare(often in a league table) the relative ability of different industries to generate income and employment from an initial round of expenditure[3]
- the ability to establish the total economic output of a particular industry, and its impact on a national economy
- an understanding can be obtained of the flow on effects of the initial injection of expenditure from an industry into the economy

There have been many economic impact studies undertaken in New Zealand. Many of those have related to special events.[4 5] There have been fewer which have looked at the economic impact of an industry on the national or regional economy.[6 7] However, those studies such as the Marlborough Wine Industry Economic Impact Study or the Deloittes Tourism scholarship study which examined the economic impact of tourism, not only the New Zealand economy , but also on certain regional economies, clearly showed that the impact of an industry can be significant. For example the Marlborough study suggests that for every $1 increase in demand, $2.07 worth of economic activity is generated throughout the region.

The Method of Measuring Economic Impact

It is not the purpose of this report to document in great detail the various methods of economic impact, but in general, there are only a handful of methods used, and even amongst those, certain ones are counted out(unless undertaken by government agencies who have sufficient funding) because of their complexity and obvious expense such as Econometric Modelling and Input-Output Models. Therefore, in most studies, the approach in simple terms is based on:

1. establishing the industry(exogenous) expenditures which flow into a national or regional economy

2. the leakages of monies from the economy, which lessen that initial impact(such as taxes, or the cost of importing goods)

3. establishing the appropriate multipliers for a particular industry, and the consequent flow of money through an economy at different levels

So most often, surveys become the favoured tool of the researcher. In the case of events, it maybe surveys of visitor expenditures, in the case of an industry it may be a survey of industry organisations to establish their expenditures. In the industry example, this is often the harder to achieve, because the companies are often reluctant to give up such information which is often perceived to be commercially sensitive.

The Use of Multipliers in Economic Impact Studies

The most contentious issue in economic impact studies has been the use of 'multipliers'. Archer had this to say in an article about policy issues relating to the use of multipliers in the economic impact assessment of tourism:

There is perhaps more misunderstanding about multiplier analysis than almost any other aspect of tourism research".

What are Multipliers supposed to do?

Multipliers are designed to give a true indication of the economic impact of an injection of money into an economy, be it local or national. The theory on which the use of multiplier stands is that expenditure from a certain industry, or event, brings direct revenue to certain groups within an economy. For example, in the case of tourist expenditure, the direct beneficiaries may be hotels, restaurants or the retail trade. However, this initial expenditure represents only the first stage of the true economic benefit, for the base expenditure can multiply as the extra income passes through the economy. For instance, in our tourism example, moteliers pay out salaries and wages to employees and in addition are required to restock inventories to provide further goods and services to customers, and so it continues on, with repeated expenditure occurring as a result of that initial tourist expenditure.

Of course, not all of the initial expenditure flows through the economy. Some is lost outside the regional "boundary"(be it a local or national boundary). This loss of revenue is termed 'leakage' and thus reduces the total amount of money flowing through the local economy. Such leakages maybe the cost of goods and services which need to be purchased outside the region, or revenue which is lost to the region, such as taxes. For a national economy, the leakage may be such things as the cost of imported goods, profits returning to overseas owners, or royalties paid to off shore franchise owners.

The size of such leakages, and the resulting smaller multiplier, will be dependent on the ability of the businesses to procure supplies within the local economy, and thus is affected by the size and scope of local industry. For example, an island economy, dependent on tourism, may have a relatively undeveloped manufacturing industry, and thus many of the goods required for the tourism industry need to be imported. Thus the 'leakage' of revenues offshore is likely to be greater, the greater the cost of importing goods.

In general terms, multipliers are larger, the larger the economy. This comes about because the larger economy has well developed industries, particularly the manufacturing sector, and thus there is less need to import. For example, some tourist income multipliers for national economies have been set at 1.67, island economies at 0.85, US states and counties at 0.68, UK regions and counties at 0.35 and UK cities and towns at 0.28[8]. The substantial differences in the size of the multiplier for various regions highlights the importance of establishing the size and development of the economy under examination.

The theory of multipliers thus seems a logical process. However, problems have arisen where the researcher has not clearly identified what multiplier has been used and how it was arrived at. So it is worth examining the 'types' of multipliers that are in current use, and where they might be applied.

Components and Types of Multipliers[1]

The Initial Effects

These are the impact/effect of the initial expenditure, and are normally measured by $1 changes in sales to satisfy final demand

Direct Effects/First Round Effects

Refer to the purchases of inputs required from other sectors in an economy to produce additional output.

Indirect Effects/Industrial Support Effect

Measures the second and subsequent round effects, as successive waves of increased output(sales) occur in the form of industrial support in response to $1 increase in output.

Induced Effects/Consumption-Induced Effects

The effect induced by increased household income associated with the original dollar stimulus in output.

Sales(Transaction) Multiplier	measures the effect of injected expenditure on business turnover
Income Multiplier	illustrates the resulting increase in household income from an increase in industry expenditure
Employment Multiplier	describes the ratio of the direct and secondary employment generated by additional industry expenditure to direct employment
Output Multiplier	describes the resulting increase in the level of economic output from an increase in industry output

Type 1 and Type 2 Multipliers

Multipliers can be converted to ratios expressing a "per unit" measurement, and described as Type 1 and Type 2 ratios

Type 1A Ratio = [initial + direct]/initial

Type 1B Ratio = [initial + indirect]/initial

Type 2A Ratio = [initial + indirect + induced]/initial

Type 2B Ratio = [flow on (direct + indirect + induced)]/initial

Summary

The economic impacts of an event or industry have historically come in for criticism as being unreliable and loose. While there will never be a definitive economic impact for a given activity, industry or event, in recent years, the accuracy of such studies has improved through the development of national and regional input output models which have provided multipliers for application to different sectors of the economy.

Economic impact studies and multiplier analysis does come in for their share of criticism but they do provide an aggregate view of the size of an industry and its importance relative to other sectors. In this sense, it can provide a more revealing insight into the value of an industry that would not otherwise have been known.

Economic Impact Assessment of the New Zealand Direct Selling Industry

Industry profile

The Direct Selling Industry in New Zealand is not well known to many people, and yet industry sales were close to $185 million in 1998. Only a decade earlier retail sales were barely $70 million dollars. Multi – level marketing held the biggest share of the industry in 1998 with total retail sales of $122 million, while Door to Door or Traditional Direct Sales generated $52 million and Party Plan marketing accounted for $11 million.

According to industry statistics provided by the Direct Selling Association of New Zealand, there is a strong female representation amongst the industry sales force. Amongst multi level marketers, females account for 66.0%, while all of the 2,120 independent salespeople in the party plan sector are female. The balance is more even in the more traditional area of door to door sales with a 55/45 split in favour of females. Overall, there is approximately a 67/33 bias towards females.

The following chart presents the breakdown of sales by product category:

Perhaps one of the most surprising features of the industry, is the large independent sales force at work throughout the country. While there were only 380 full time company employees in 1998, at the same time there were some 90,000 independent salespeople and contractors involved in the direct selling industry.

The New Zealand Direct Selling Industry has shown significant growth in the last ten years, and has developed into an industry of considerable size which caters for a diverse and widespread salesforce.

The International Direct Selling Industry

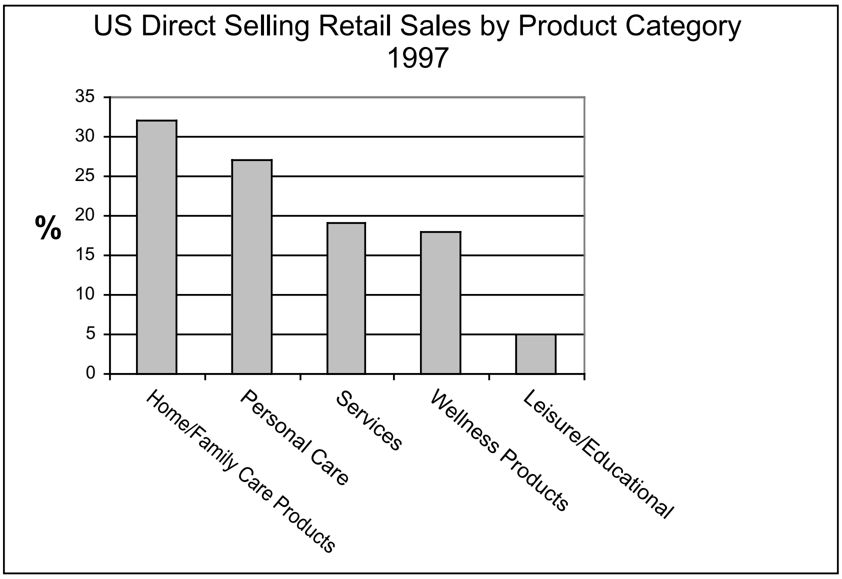
While the industry in New Zealand may have a relatively low profile, internationally, the industry is enormous, with total retail sales in 1997 of $US81 billion and a global sales force of some 31 million people.

The following table shows some of the biggest direct selling industries around the world, with statistics coming from the World Federation of Direct Selling Associations

From the chart it is obvious that the internationally, the direct selling industry is a major force in a number of the larger economies, and has grown in a similar fashion to New Zealand over the past 10 years, with 1997 global sales of $US81 million compared with $US33 million in 1988[9]. At the same time the global sales force increased from 8.5 million people to 31 million in 1997.

It is worthwhile to compare the United States direct selling industry with New Zealand, as the US market represents one of the most developed[10].

Profile of the US Direct Selling Industry



The above chart highlights the growth of the wellness market(nutritional supplements, weight loss, vitamins, etc), which is also an area of strong growth in New Zealand. It also recognises the leisure and educational market which has yet to register such development in the New Zealand Direct Selling Industry.

The *1998 United States Direct Selling Growth and Outlook Survey* also highlights a number of other facts worthy of mention:

- the ‘home’ is the primary location of sales(70.0%)
- Individual/one-to-one selling is the most common sales strategy(75.0%), followed by party plan/group selling(22.0%)
- 79.0% of firms are involved in multi-level marketing(as opposed to single level)
- Multi-level marketing makes up 72.5% of total US sales dollars, and accounts for 80.5% of the salespeople.
- Virtually all US salespeople(99.9%) are independent contractors as opposed to employees
- Females make-up 55.7% of the sales force, men 26.0% and couples/two person teams 18.5%
- 80.5% of salespeople spend less than 30 hours per week on their direct selling business, 8.5% spend 30-39 hours and 11.0% 40 hours or more.
- Total US retail sales in 1997 were $US22.21 billion and involved a salesforce of 9.3 million people

Key Features of the Direct Selling Industry

In order to undertake a study of the economic impact of the direct selling industry, there are some unique features of the industry which must be taken into account:

- There are two components of the industry which inject direct expenditure into the economy, namely the direct selling companies, and secondly the independent direct selling salesforce and contractors.

- The direct selling companies and salesforce act at different levels of the economy. That is, the firms are primarily operating in the tertiary sector at a national level, while the sales force originates in the household sector at a regional level, and therefore their expenditure is likely to be more localised and injected into the local economy.

- Because much of the product supplied to the direct selling industry is imported, there are significant leakages of expenditure out of the national boundary, and therefore lost to the economy.

- Some New Zealand direct selling companies pay royalties and dividend to off shore ownership or franchisors and again these count as leakages and are consequently lost to the local economy

- Some expenditures by contractors are in for services(seminars, books, etc) supplied by the direct selling firms, and therefore cannot be counted as true expenditure

- Up to 20% of the salesforce are working as couples and care needs to be taken to ensure they are not double counted when taking into account sales force expenditures.

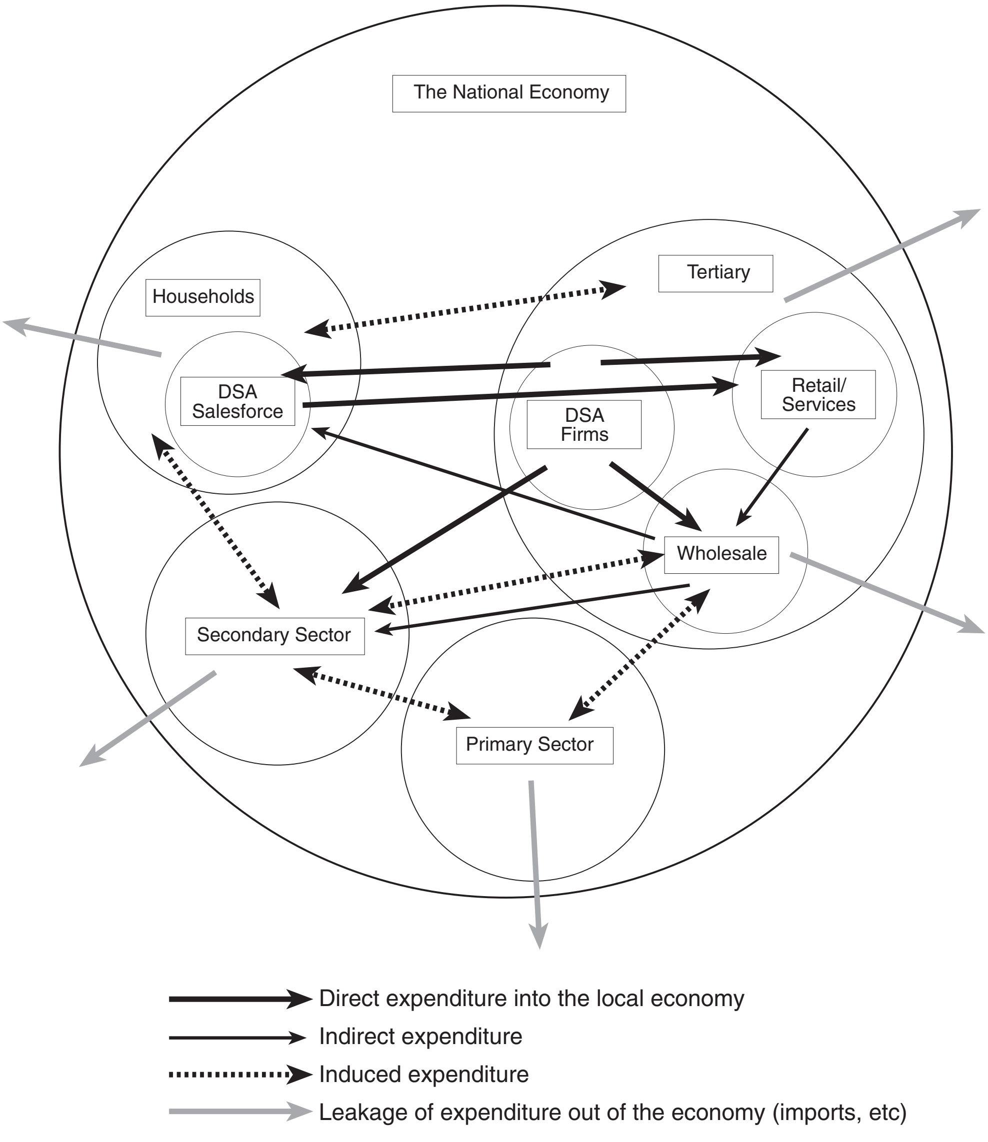
The diagram on the following page shows how the expenditures from the direct selling companies and salesforce impact on the economy at different levels. The diagram was adapted from the Deloitte Tourism Scholarship economic impact study of tourism in New Zealand. The diagram shows in a simplistic way the following events:

- The dark arrows show the initial injection of expenditure into the economy by either the companies or the independent salesforce

- This initial expenditure is followed by the indirect expenditures from retailers and wholesalers who benefited from the expenditure from the direct selling industry. For example, the retailers and wholesalers need to pay staff(households income) or restock goods and inventories used to provide a good or service to the direct selling industry

- As the multiplier effect of the initial expenditure flows through the economy, there are subsequent rounds of expenditure, as the primary and secondary sectors respond to demands from the wholesaler and retailers and so the dotted arrows represent the induced income which ripples through the economy at different levels.

Diagrammatic view of the flow of expenditure from the Direct Selling Industry



Economic Impact Assessment of the Direct Selling Industry

The Approach

The approach to the assessment of economic impact of the New Zealand Direct Selling Industry was to ensure that the base data was not only cost effective but also as accurate as possible, and so it required an approach using the survey methods for both .

1. Firstly, member companies of the New Zealand Direct Selling Association were approached to provide accurate financial data about their operations. Without this cooperation the research would have not proceeded.

2. Secondly, a survey of the industry's independent salesforce was undertaken. In conjunction, with the desire to gain an understanding of attitudes towards direct selling, a series of questions was also asked about business related expenditure, the results of which form the basis of the economic impact assessment.

The Methodology

The method involved with the survey of member companies was straight forward, and involved a mail survey and letter requesting the financial material required. This letter was endorsed by the association executive director and followed by an email reminder.

The survey of the salesforce required each member company to select a random list of names from their sales team database. In all 1500 names were supplied from the member companies. Because the size and subsequent turnover of each company was markedly different, the number of names required from each company was based on the percentage of what their sales represented of the industry total.

From the resulting mail out, 416 responses were obtained, with a final usable sample of 410, which represented a 28.0% response.

The Data

Salesforce Expenditures	**Average annual expenditures**
Travel/Transport	1,919.68
Accommodation	859.63
Entertainment	534.62
Childcare	682.50
Other direct expenses (administration, office expenses, telephone & tolls, etc)	2,333.10
Total annual business expenditures	**6,329.53**

The salesforce expenditures on their direct selling business varied significantly, with some expenditures as high as $40,000 in some areas, and others next to nothing. As expected, there was a high correlation with the number of hours worked, with those working longer hours on their direct selling business having higher expenditures. However, it was also apparent that there was some initial costs that had to be borne when first entering the business, and so in the early years, costs were higher, which initial returns did not justify. As indicated in an earlier section, 57.0% spent between 2-20 hours per week on their business, and 46.0% had annual incomes under $NZ20,000. However, there was also a group of salespeople(17.0%) who spent 21-40 hours on their business, and 8.0% who worked more than 40 hours per week on direct selling. And so, it could be expected that average annual expenditures would be pushed higher by this group of people who are spending more time on their business. As well, it appeared that different marketing structures and company philosophies also meant expenditures differed for salespeople working with different organizations.

Total Salesforce

The other essential piece of information is to establish the total number of independent salespeople working in the industry in the 1997/98 year. According to industry figures[11], in 1998 the total salesforce numbered some 90,050. Assuming that some 20% of these people were working couples, we arrive at a total figure of 81,045.

Total Independent Salesforce Expenditures

Coupled with an average expenditure of $6,329.00, we can begin to see the significant economic impact of direct selling on the New Zealand economy, with total business related expenditures by the salesforce estimated at $512 million.

Direct Selling Company Expenditures

Total retail sales in 1998 for the whole industry were $NZ 185 million. However, for the purposes of this study, we are interested in the inputs that were required to generate these sales and their associated expenditures, in particular, those expenditures which remained within the New Zealand economy.

One of the features of the direct selling industry in New Zealand is its close relationship with off shore suppliers, and the resulting high percentage of imported goods, which meant the cost of imports was a high percentage of the industry's costs of sales. This does reduce the total expenditure spent within the New Zealand economy, but in today's environment of lower tariff barriers and free trade, then a higher import element is not so unusual. It is also worth noting that it is likely that such goods would be purchased at prices cheaper than any industry in New Zealand could produce, and hence there is a price benefit to the final consumer. Of course, along with the flow of goods, there is also a significant flow of systems, educational materials, information and experience, which help to build the industry. No account has been taken of this inflow of information.

Having accounted for total operating expenses, less leakages out of the economy, the total value of expenditures by the direct selling industry were estimated at $112 million.

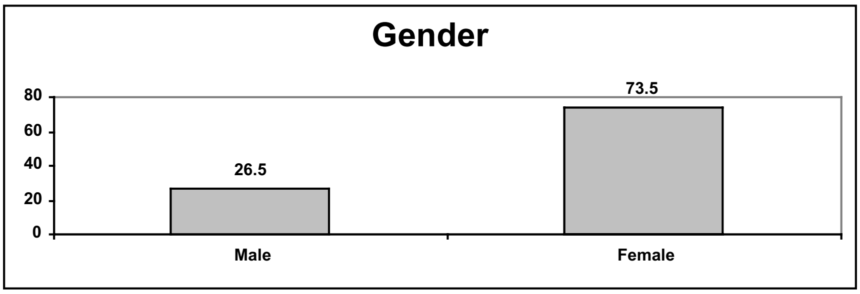
In total the direct expenditures derived form the New Zealand Direct Selling industry were estimated to be $625 million.

Taking into account the flow on effect of this direct expenditure and the resulting economic impact, the total economic output, using a type 2a output multiplier of 2.68, has been estimated to be $1.67 billion. This figure was arrived at by estimating the direct, indirect and induced multiplier effects from the initial direct selling industry expenditure on the New Zealand economy. The companies of the direct selling industry make a significant contribution to the New Zealand economy, but the greater impact is to be found with the sales force in the execution of their independent business. More importantly perhaps, this expenditure is taking place within local and regional economies throughout New Zealand.

5.0 Demographic Profile

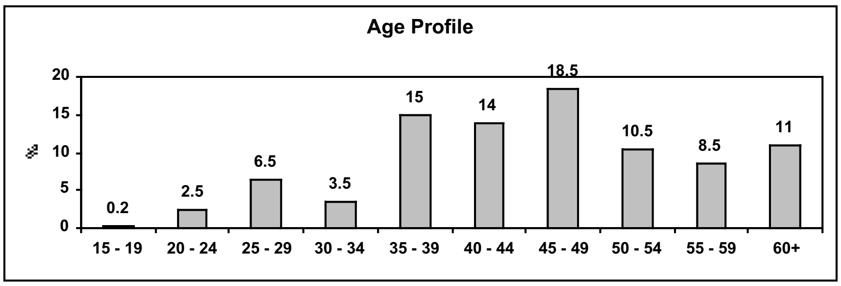
5.1 Gender

Gender	Frequency	Percentage of Sample
Male	108	26.5
Female	292	73.5
TOTAL	**400**	**100.0**



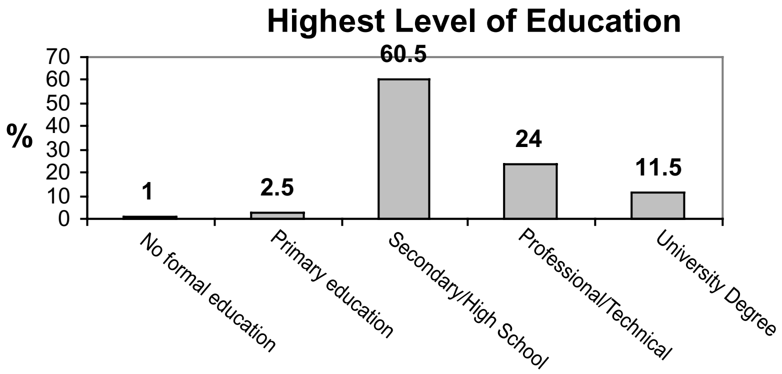
5.2 Age Profile

Age	Frequency	Percentage of Sample
15 - 19	1	0.2
20 – 24	10	2.5
25 – 29	27	6.5
30 – 34	55	‘3.5
35 – 39	61	15.0
40 – 44	56	14.0
45 – 49	75	18.5
50 – 54	42	10.5
55 – 59	34	8.5
60+	45	11.0
TOTAL	**406**	**100.0**



5.3 Highest Level of Education

Education	Frequency	Percentage of Sample
No formal education	5	1.0
Primary education	10	2.5
Secondary/High school education	244	60.5
Professional/Technical	96	24.0
University degree or higher	47	11.5
TOTAL	**403**	**100.0**



5.4 Annual income

Income	Frequency	Percentage of Sample
Under 20,999	182	46.0
21,000 - 30,999	82	21.0
31,000 – 40,999	49	12.5
41,000 – 50,999	33	8.5
51,000 – 60,999	25	6.5
61,000 – 70,999	16	4.0
80,000+	7	2.0
TOTAL	**394**	**100.0**

Overall, the profile suggests a strong bias towards women, who are middle aged, mostly secondary school educated, and on lower incomes.

References

1 Total salesforce numbers are 90050, however some account must be made for the 20% who are working as couples. Thus the figure of 81,045 represents the saelsforce number used in the economic impact assessment

2 This figure is based on member organisations of the direct selling association of New Zealand. No attempt was made to survey non member companies

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