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Journal of Direct Selling Research

Direct Selling Delivers $111 Billion Impact on US Economy; Scholars Explore Diverse and Dynamic Distribution Channel

JOURNAL *of* DIRECT SELLING RESEARCH

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Journal of Direct Selling Research is published by the Direct Selling Education Foundation.

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This paper uses a unique data set of over 13,000 individual direct selling distributors from dozens of companies at various stages in their direct selling experiences, to investigate the motivations to join, stay and leave a direct selling distributorship. The authors build on literature in salesforce management and compensation, economics, organizational behavior, psychology, and sociology to develop hypotheses about each of the key decisions a distributor makes, as well as the interlinkages among the join, stay, and leave junctures in the distributor's life cycle.

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DIRECT SELLING UNDER SCRUTINY: SEPARATING FACT FROM FICTION

An accurate understanding of the direct selling business model is critical as regulators, judges and policymakers make decisions and policy related to the channel. This paper by leading academics makes a significant contribution to that effort by focusing on debunking misguided assumptions as well as various logical and analytical errors in research.

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CONSUMER PROTECTION AGAINST PYRAMID SCHEMES

As noted by author Dr. Chetan Sanghvi, concern about pyramid schemes has rightly focused on the victimization of consumers. But it should also be recognized that pyramid schemes damage legitimate businesses, which further damages consumers. The prevalence of fraud can create a fog of uncertainty and doubt that leads individuals to demur from participating in legitimate businesses. Dr. Sanghvi argues that the antidote is to provide clarity and assurance by establishing clear guidelines in law on what constitutes pyramid fraud.

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The article discusses 2024 FTC Guidance on how direct selling companies with multilevel compensation structures should approach their income and earnings reports, commonly known as income disclosure statements.

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ARABIA: THE NEXT FRONTIER FOR DIRECT SELLERS

The entire Gulf region has a young and growing population of nearly 100 million representing diverse communities and an annual gross domestic product growth rate of almost 4%. This growing population with its high disposable income offers exciting opportunities for direct sellers. This article traces key considerations and necessary steps to expand direct selling in the region.

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EDITOR'S DESK

By Gary Huggins
Executive Director
Direct Selling
Education Foundation

We are excited to launch the Journal of Direct Selling Research (JDSR), a new publication of the Direct Selling Education Foundation (DSEF).

The JDSR will serve as a premium outlet for scholarly research on the direct selling business model and related issues to inform policymakers, regulators, opinion leaders, investors and others as they engage with the channel. This issue and those to follow will feature research, expertise and insights from leading academics and experts in business, economics, marketing, entrepreneurship, sales, ethics, consumer studies and other fields to provide a data-driven understanding of the distribution channel as well as actionable insights for improving the performance of direct selling companies in serving their salesforce, customers and the general public.

Direct selling is a business model that offers entrepreneurial opportunities to individuals who, as independent contractors, market products and services to consumers, typically outside of a fixed retail establishment through one-on-one selling, in-home demonstrations or online. As a retail channel used by top global brands and other entrepreneurial companies direct selling generated an economic impact of more than $111 billion on the U.S. economy in 2022 as chronicled in a recent study by Dr. Robert A. Peterson, John T. Stuart III Centennial Chair in Business Administration at The University of Texas at Austin, which is included in this issue.

For more than 50 years, DSEF has partnered with members of the academic community to support research and education programs. Through our Academic Fellows Program, the Foundation engages with more than 250 leading academics throughout the country to expand knowledge and understanding of the fundamental principles of direct selling. DSEF Fellows also produce research to drive innovation, improve performance and inform the evolution of the channel as advancements in technology and social networking continue to change the marketing landscape.

We would like to extend our deep appreciation to the many authors who have contributed to this initial issue and look forward to continuing to share the great contributions of our DSEF Fellows as well as other scholars and experts to serve the public interest through high level research on the diverse and dynamic direct selling channel.

Gary Huggins

Gary Huggins, Publisher and Editor-in-Chief

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THE ECONOMIC IMPACT OF DIRECT SELLING ACTIVITY IN THE UNITED STATES

By Dr. Robert A. Peterson

Direct selling is a business model that offers entrepreneurial opportunities to individuals who, as independent contractors, market products and services to consumers, typically outside of a fixed retail establishment through one-to-one selling, in-home product demonstrations, or online. Direct sellers are called distributors, representatives, consultants, associates, or various other titles. They may participate in direct selling in various ways, including selling products and services themselves or through their sales organizations, providing training and leadership to their sales organizations, referring customers to their company, and purchasing products and services for personal use. Compensation is ultimately based on sales and may be earned through personal sales and/or the sales of others in their sales organization.

In 2022, direct selling generated $40.5 billion in retail sales in the United States—the second-highest in direct selling history—and involved an estimated 6.7 million individuals who were actively engaged in building their own direct selling businesses and/or earning supplemental income.

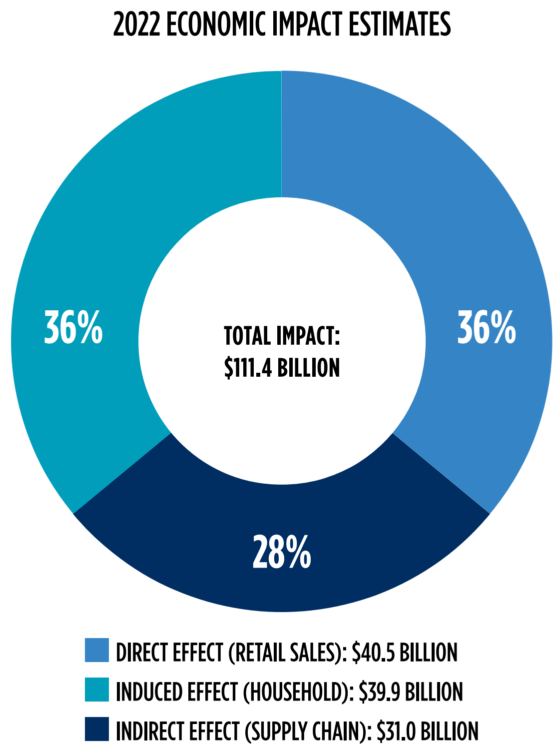
Despite its ubiquity and contribution to the economy, the full economic impact of direct selling in the United States has not been formally or comprehensively assessed for nearly a decade. Therefore, the purpose of the present analysis was to estimate the economic impact of direct selling activity in 2022 through the application of an input-output economic model. Given the retail sales generated by direct selling (i.e., its **Direct Effect**), the model (implemented by means of IMPLAN® software and data) estimated the:

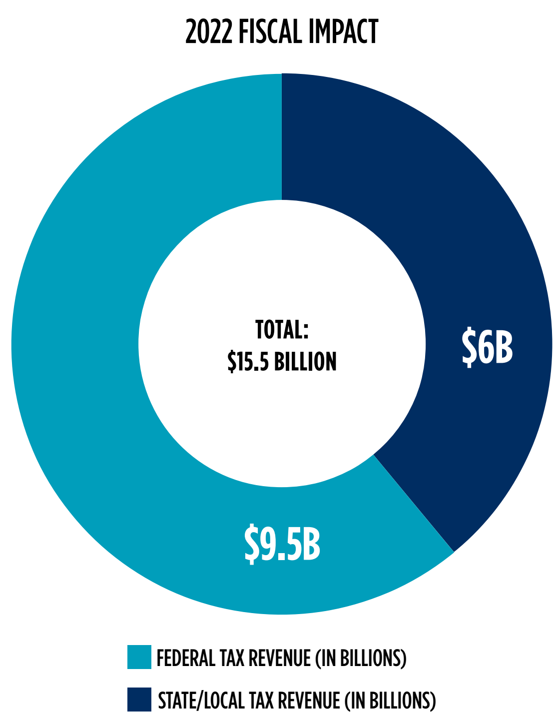
- **Indirect Effect** (upstream or supply chain sales) due to direct selling and
- **Induced Effect** (downstream sales due to household spending) associated with the **Direct** and **Indirect Effects.**

These three effects—**Direct, Indirect,** and **Induced**—collectively represent the economic impact of direct selling activity on the nation's economy. In addition, the analysis estimated the fiscal (tax) implications of direct selling activity in the United States.

Executive Summary

An input-output economic analysis of 2022 direct selling sales activity was undertaken using IMPLAN® software and data obtained from the federal government.[1] Direct selling (retail) sales data were provided by the





1 IMPLAN® is widely used in industry and government analyses. See www.implan.com.

Direct Selling Education Foundation. The purpose of the analysis was to estimate the economic impact of direct selling activity in the United States in 2022. To provide a context for interpreting the 2022 economic impact of direct selling activity, the economic impact of direct selling activity in 2004, 2010, 2015, and 2016 was also investigated.

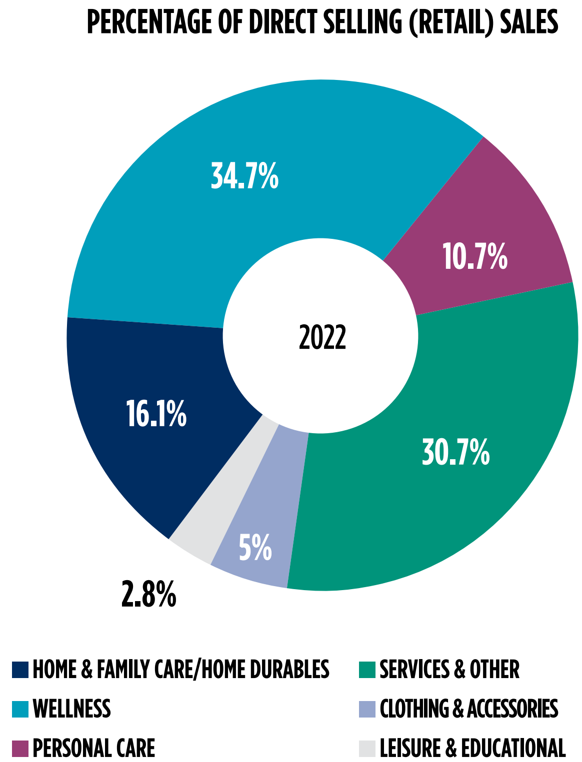
Results are reported in terms of **Direct, Indirect,** and **Induced Effects** using a measure of gross economic output sales dollars. Gross economic output refers to the cumulative value of production. Unlike Gross Domestic Product (GDP), gross economic output includes intermediate goods and services. (GDP is synonymous with total output less intermediate inputs.)

Using the Direct Selling Education Foundation estimate of $40.5 billion in direct selling (retail) sales in 2022 as a starting point, the total economic impact of direct selling activity in the United States in 2022 was estimated to be $111.4 billion. The $111.4 billion economic impact consisted of:

- The **Direct Effect** of direct selling, $40.5 billion
- The **Indirect** (upstream or supply chain) **Effect** of direct selling, $31.0 billion, and
- The **Induced** (downstream or household) **Effect** of direct selling, $39.9 billion.

Because of (1) the analytic approach and (2) the nature of the industry (i.e., the widespread use of independent contractors), the total estimated economic impact of $111.4 billion should be considered conservative.

The derived multiplier emanating from the IMPLAN® analysis was 2.75. This multiplier means that nationally $1.00 in direct selling (retail) sales produced an economic impact of $2.75 in 2022. The 2022 derived multiplier is 18 percent larger than the 2016 derived multiplier (2.34) and 24 percent larger than the 2010 derived multiplier (2.21). These increases were primarily due to increases in the **Induced Effect** across the respective years.



In 2022, the economic impact of direct selling activity produced an estimated $9.5 billion in federal taxes and $6.0 billion in state and local taxes, or $15.5 billion in total taxes. This represents an increase of $4.9 billion (a 46% increase) in tax revenue from 2016. The total value of direct selling activity (i.e., the **Direct, Indirect,** and **Induced Effects**) added to the nation's Gross Domestic Product in 2022 was estimated to be $111.4 billion, which represents an increase of $28.3 billion from 2016 (a 34% increase). Read full paper →

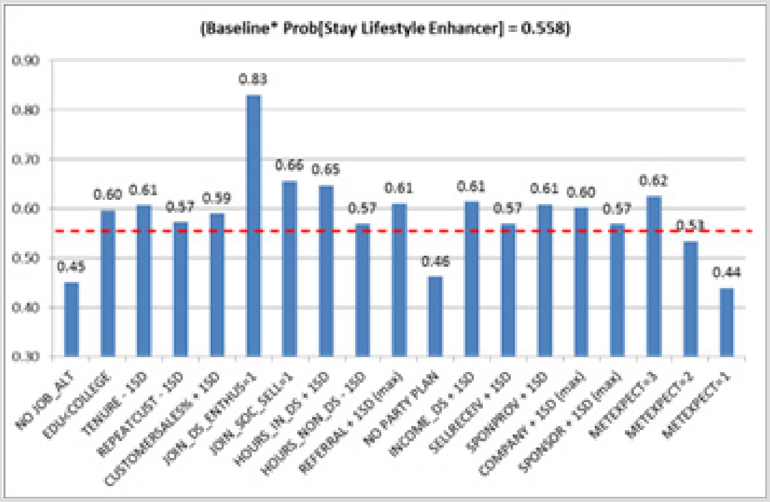
JOIN, STAY, LEAVE: A STUDY OF DIRECT SELLING DISTRIBUTORS

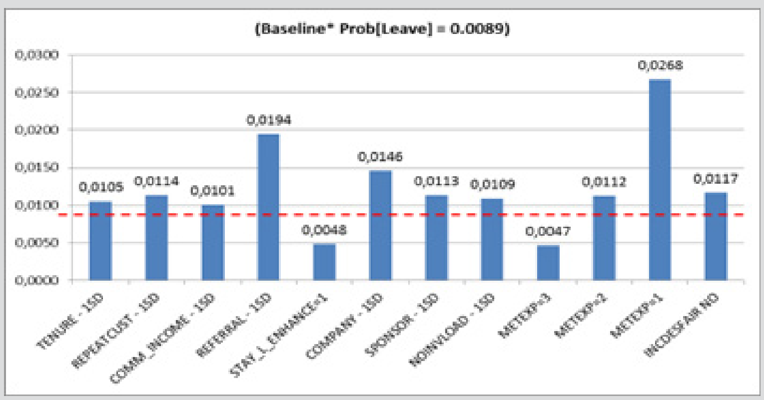
By Dr. Anne T. Coughlan, Dr. Manfred Krafft, and Dr. Julian Allendorf

This paper uses a unique dataset of over 13,000 individual direct selling distributors from dozens of firms, at a wide variety of stages in their direct selling experiences, to investigate the motivations to join, stay, and leave a direct selling distributorship. We build on the literatures in sales force management and compensation, economics, organizational behavior, psychology and sociology to develop hypotheses both about each of these key decisions a distributor makes, as well as the interlinkages among the join, stay, and leave junctures in the distributor's life cycle. Our analysis shows that many insights from these underlying academic research paradigms are robust to the direct selling situation, while others are not supported—suggesting that direct selling has many parallels, but is not a replica of, other non-direct-selling sales channels.

We find that individuals join as direct selling distributors for a variety of reasons, many of which combine multiple aspects of direct selling that a cluster of distributors finds attractive. Only a small proportion of joiners sign up purely for personal consumption of the direct selling firm's products—but a great majority do join for this and other reasons as well. We further find that stated reasons for joining are frequently replaced by other motivations for staying as a direct selling distributor, consistent with

the idea that distributors join without always knowing what direct selling will offer to them; they learn in the process of doing it. We also link certain traits as well as certain joiner and stayer types to the likelihood that a distributor will leave the firm; but interestingly, we do not find that a distributor's reasons for joining have a relationship with his/her likelihood of leaving. Thus, the join/stay/leave life cycle path does show linkages from each stage to the next, but its failure to directly link join reasons to likelihood to leave is consistent with the learning that naturally occurs as distributors develop.
Read full paper →





Managerial Implications:

- **Keep it easy, inexpensive to join, & easy to leave.**
- **Poll your new distributors** to learn their join-type and **cultivate** those who identify as social sellers and enthusiasts.
- **Communicate realistic expectations, do not over-promise**—important for both "stay for business+social" and for "low intention to leave" distributor types.
- **There are many reasons for joining, staying and leaving.**
- **Clearly communicate Rules of Conduct**—direct ship has made inventory loading much less likely.
- **Poll stayers for signs of intention to leave** because nature **and** nurture are both at work.
- Invest in **training/mentoring distributors** in skills that increase productivity and retention: selling, landing new customers, recruiting/mentoring.
- **Cultivate financially successful stayers** (retail sellers, income earners) → lower turnover.

Policy Implications:

- **Not all motivations are financial**—there are many reasons for joining, staying or leaving a direct selling company.
- **Policy requirement to offer "preferred customer" status isn't inherently good:** most do not join *solely* for product discounts, but most do mention product discounts as one benefit.
- **Allow flexibility in ability to enjoy different direct selling distributor roles**, at any given time across distributors **and** over a given distributor's life cycle (social, not just income, can connote "success").
- **Turnover is not diagnostic of poor performance or pyramid scheme threat—**turnover is most likely in first year, when "learning on the job" about one's fit with direct selling happens.
- **Judging a direct selling company by distributor income, "losses," or turnover is not diagnostic of viability of business**—even leavers do not uniformly blame the company.

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JOURNAL of DIRECT SELLING RESEARCH

PROFESSIONAL AND PERSONAL BENEFITS OF A DIRECT SELLING EXPERIENCE

By Dr. Robert A. Peterson

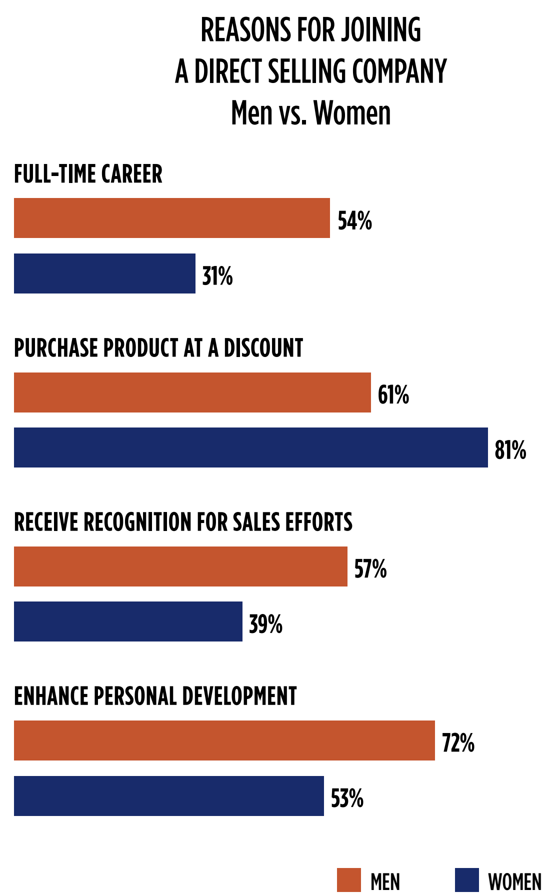
Direct selling is simultaneously a channel of distribution and a business model that offers entrepreneurial opportunities for individuals to market and sell products and services, typically outside of a fixed retail establishment, through one-to-one selling, in-home product demonstrations, and/or online. As a distribution channel, direct selling is ubiquitous and, in 2016, touched the lives of an estimated 20.5 million Americans. Individuals are drawn to direct selling for a multitude of reasons beyond a desire to earn a living as a full-time direct seller or to earn extra money or make a special purchase as a part-time direct seller.

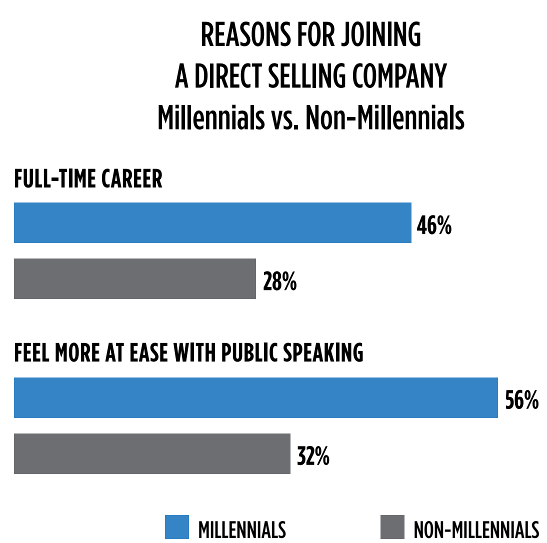
The research reported in this Executive Summary documents the impact of a direct selling experience on 14 business and professional skills as well as on 13 personal life skills. A substantial majority of the current direct sellers surveyed, more than three-fourths, agreed that they benefitted from their direct selling experience in terms of improved business and professional skills, and that skills gleaned from a direct selling experience transferred to their personal lives. Moreover, there were significant and positive relationships between self-perceived skill levels and self-perceptions of direct selling success and performance in a non-direct selling job. Findings regarding the impact of a direct selling experience on personal life skills in particular suggest that a direct selling experience can have a powerful influence beyond direct selling per se and, as such, can indirectly contribute to the betterment of society.

Four hundred ninety-five current direct sellers and 465 former direct sellers were surveyed for the present research. Findings from this research have several practical implications for recruiting, training, and retaining direct sellers. These findings and implications are briefly summarized below.

Reasons for Joining Direct Selling Company

Twelve (12) possible reasons why the direct sellers surveyed joined their current direct selling company were investigated.[1] The most frequently stated reason for joining a direct selling company was “I believed that the products are of such value that I wanted to share them with my friends, neighbors, and the public.” Eighty-one percent of the survey participants stated that this was a reason they joined their current direct selling company. The least frequently cited reason for joining a direct selling company was “I wanted a full-time working career;” 35 percent of the direct sellers surveyed gave this as a reason for joining their direct selling company. In general, the reasons for joining a direct selling company





1 See the DSEF report “Professional and Personal Benefits of a Direct Selling Experience” for a list of all reasons studied.

can be categorized as "people/social," "financial" (income/job), and desire for a specific "product."

The median number of reasons survey participants gave for joining their current direct selling company was seven (7). Thus, on average survey participants stated that seven of the 12 studied reasons were in fact reasons why they joined their current direct selling company. There were no substantive differences across the current direct seller segments studied regarding the number of reasons given for joining a direct selling company.

However, of the current direct sellers surveyed regarding their reasons for joining a direct selling company:

- Males were more likely than females to want a full-time direct selling job (54% versus 31%).
- Eighty-one percent of the female direct sellers stated that they wanted to purchase their direct selling company's product(s) at a discount for themselves and/or their family versus 61 percent of the male direct sellers.
- Fifty-seven percent of the male direct sellers were interested in the recognition that they would receive for their [sales] efforts compared to 39 percent of the female direct sellers.
- Seventy-two percent of the male direct sellers were interested in enhancing their personal development (i.e., becoming more confident, better business-minded) through direct selling, whereas 53 percent of the female direct sellers stated such an interest.
- No differences were observed regarding reasons for joining a direct selling company between urban and rural direct sellers, or among direct sellers who had been with their direct selling company for various time periods.
- Proportionally more millennial direct sellers (46%) than non-millennial direct sellers (28%) joined their current direct selling company because they wanted a full-time working career. Millennials also wanted to feel more at ease in front of other people relative to non-millennials (56% of the millennials so responded as compared to 32% of the non-millennial direct sellers).

In addition, current direct sellers differed markedly from former direct sellers with respect to the number of reasons and the specific reasons given for joining a direct selling company. Whereas 35 percent of the current direct sellers stated that they wanted a full-time direct selling job, only 16 percent of the former direct sellers stated that they wanted a full-time direct selling job. This suggests that direct selling may currently be perceived as more likely to be a career option than it was in the past. Moreover, given that the demographic profile of direct sellers may be approaching that of the United States adult population, the "pool" of potential direct sellers may be expanding.

Skill Improvements Due to Direct Selling Experience

The present research examined 14 business/professional and 13 personal life skills that might be improved or fostered by a direct selling experience.[2] Survey participants were first asked whether they "strongly disagree," "somewhat disagree," "somewhat agree," or "strongly agree" that their direct selling experience was beneficial in terms of improving or fostering each of the 14 business/professional skills. For example, they were asked whether they "strongly disagree," "somewhat disagree," "somewhat agree," or "strongly agree" that "I improved my decision-making skills" (as a consequence of their direct selling experience).

Similarly, survey participants were asked whether they "strongly disagree," "somewhat disagree," "somewhat agree," or "strongly agree" that they had been able to transfer each of 13 skills emanating from their direct selling experience to their personal lives. An example of these skills is "I enhanced my critical thinking ability." Seven of the skills investigated were included in both the business/professional and personal skill sets studied.

On average, more than three-fourths of the current direct sellers surveyed somewhat or strongly agreed that both their business/professional skill levels improved and that their personal lives benefitted due to skills emanating from their direct selling experience. Consequently, in an absolute sense the current direct sellers surveyed believed that "lessons learned" through their direct selling experience were helpful in both their business/professional careers and their personal lives. Across the seven skills that were common to the business/professional and personal life skill sets, survey participants indicated that the skills they acquired from their direct selling experience were slightly more beneficial to their personal lives than to their business/professional careers.

Even so, despite the high absolute level of overall agreement that a direct selling experience improved or fostered skill levels, perceptual differences did occur between male and female direct sellers. With respect to business/professional skills that were believed to have been improved due to a direct selling experience, proportionally more male direct sellers than female direct sellers believed that their sales skills had improved (88% versus 77%) and that they undertook more [business-related] initiatives (87% versus 73%).

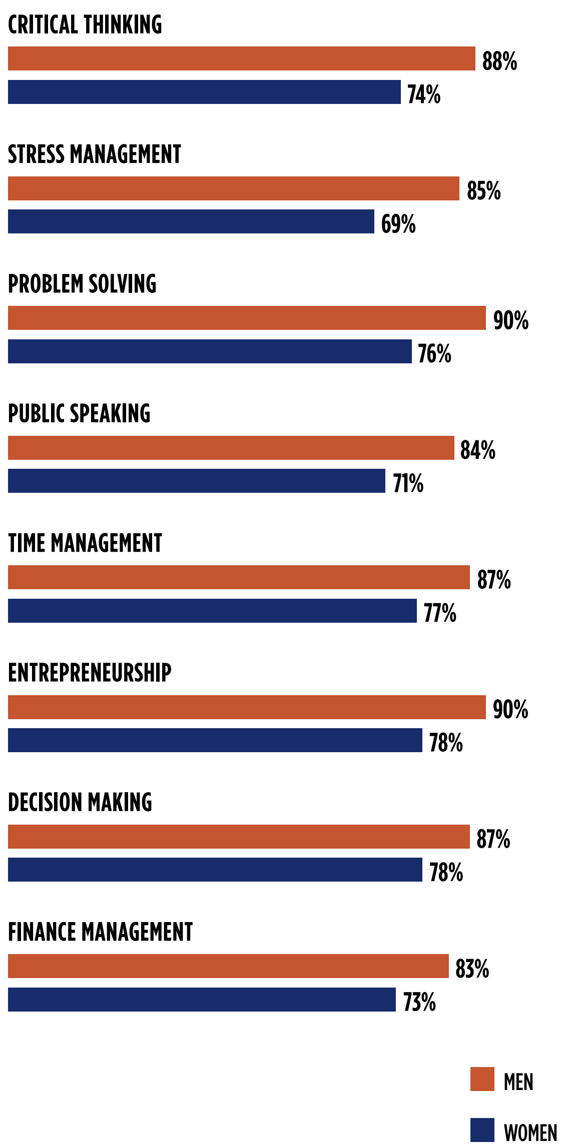
With respect to skills applicable to a direct seller's personal life, self-perceptions of the eight skills listed below significantly differed between male and female direct sellers, with male direct sellers proportionally more likely than female direct sellers to believe that improvements in the eight skills studied occurred because of their direct selling experience:

- Enhanced critical thinking ability (88% versus 74%)

2 See the DSEF report "Professional and Personal Benefits of a Direct Selling Experience" for a list of all skills studied.

- Better at coping with and managing stress (85% versus 69%)
- Better at problem solving (90% versus 76%)
- Feel more at ease in front of an audience (84% versus 71%)
- Better at time management (87% versus 77%)
- Improved entrepreneurial skills (90% versus 78%)
- Improved decision-making (87% versus 78%)
- Better at managing finances (83% versus 73%)

PERSONAL SKILLS BELIEVED TO HAVE BEEN IMPROVED BY DIRECT SELLING
Men vs. Women

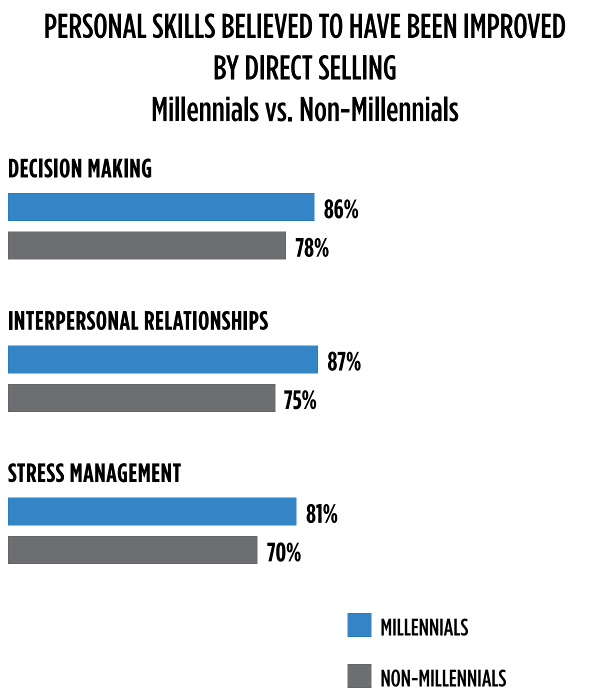


Differences between male and female direct sellers with respect to their reasons for joining a direct selling company and the skill levels gained from a direct selling experience suggests a variety of managerial implications. Additional research is required to understand motivations underlying said differences as well as their implications. For example, direct selling companies might consider instituting, emphasizing, and/or communicating different recruiting, training, and retention programs for men and women.

There were no significant differences in self-perceived skills between urban and rural direct sellers or among survey participants with different lengths of time working with their current direct selling company. Similarly, there were generally no significant differences between millennials and non-millennials with respect to self-perceived business/professional skill levels resulting from their direct selling experience.

However, three self-perceived skills differed between millennials and non-millennials in the context of their personal lives. Proportionally more millennials than non-millennials agreed that their direct selling experience improved their decision-making skills (86% versus 78%), helped them improve their interpersonal relationships (87% versus 75%), and made them more able to cope with and manage stress in their personal lives (81% versus 70%). These differences suggest that consideration be given to creating different recruiting, training, and retention programs for millennials and non-millennials analogous to those for male and female direct sellers. Moreover, similar to the male and female direct seller differences observed, differences between millennials and non-millennials should be subjected to additional research.

In an absolute sense, a majority of all direct sellers studied, current as well as former, believed that both their business/professional and personal life skills were improved by their direct selling experience. From a relative perspective, though, current direct sellers believed that their direct selling experience improved all of the business/professional and personal life skills studied to a significantly greater degree than did former direct sellers. Moreover, self-perceived skill level differences between current direct sellers and former direct sellers were in general greater for personal life skills than for business/professional skills. For example, the largest difference between the two groups occurred for the self-perceived personal life skill "I am better at interpersonal relationships." Seventy-nine percent of the current direct sellers somewhat or strongly agreed with this skill statement as compared with 52 percent of the former direct sellers who somewhat or strongly agreed with the statement. Such differences in perceptions may reflect better company training programs now than in the past, differences in the demographic makeup or motivations of the two groups, or a combination of differences in training programs and the demographic makeup or motivations of the two direct seller groups. Additional research is recommended.



Direct Selling Success

Survey participants were asked, “How successful do you consider yourself compared to other independent contractors in your direct selling company?” Based on a 7-category rating scale anchored by “much less successful” and “much more successful,” 45 percent of the survey participants who were current direct sellers rated themselves as successful (i.e., they responded “5,” “6,” or “7” on the scale). Using the same approach, only 25 percent of the former direct sellers considered themselves successful direct sellers. As before, this perceptual difference may be due to better company training programs now than in the past, differences between the two groups—including actual success—or both company training and direct seller characteristics. Indeed, to the extent that perceptions reflect reality, the self-perceived performance of former direct sellers may be a reason they left direct selling.

Responses to each of the 27 business/professional and personal life skill statements were significantly and positively related to responses to the self-perceived success scale ($p<.001$) for the current direct seller sample. Similarly, summary indices of business/professional and personal life skill responses respectively correlated significantly ($p<.001$) with self-perceived direct selling success. This means that survey participants who believed their direct selling experience improved their business/professional and personal life skills also believed they were more successful direct sellers than other direct sellers in their company. Again, if perceptions reflect reality, this implies that a direct selling company should target skill improvements during recruiting and training since doing so should benefit the company financially and its direct sellers both financially and personally.

Performance in Non-Direct Selling Jobs

Eighty percent of the survey participants who were current direct sellers stated that they also had a job other than direct selling. (This reinforces the conclusion that direct selling tends to be a part-time pursuit.) These survey participants (and former direct sellers surveyed) were asked whether they agreed or disagreed with the statement, “Because of my direct selling experience, I perform better in other, non-direct selling jobs,” using a 4-category rating scale ranging from “strongly disagree” to “strongly agree.” A substantial percentage of the survey participants who were current direct sellers and who held a non-direct selling job—84 percent—noted improved performance due to lessons learned through their direct selling experience. As might be expected, given differences in reasons for joining a direct selling company and self-perceived skill levels between current and former direct sellers, the percentage of current sellers (84%) believing their direct selling experience helped them perform better in a non-direct selling job was significantly larger than the corresponding percentage (66%) observed for former direct sellers. Likewise, proportionally more male direct sellers (90%) than female direct sellers (80%) believed their direct selling experience helped them perform better in a non-direct selling job.

Self-perceived performance in a non-direct selling job was significantly and positively correlated with self-perceptions of direct selling success. In addition, survey participants holding a non-direct selling job also believed that skills emanating from their direct selling experience improved their performance in their non-direct selling job. Moreover, survey participants who stated that one reason for joining a direct selling company was to improve their personal development (i.e., become more confident, better business-minded) also believed that skills emanating from their direct selling experience enhanced their performance in a non-direct selling job.

Finally, each of the 27 business/professional and personal life skills studied was significantly and positively correlated with perceived performance in a non-direct selling job. This finding corroborates the suggestion that a direct selling company target the improvement of skills of its direct sellers since doing so is beneficial to both the company and its direct sellers. When recruiting direct sellers, a company can communicate that even if a direct seller does not remain in direct selling, he or she can obtain skills that will improve performance in a non-direct selling job. Simultaneously, individuals considering a direct selling job may use that job to gain valuable skills that can be applied in a non-direct selling job as well as in their personal lives.

In brief, a substantial majority of the current direct sellers surveyed in this research—more than three-fourths of the individuals surveyed—agreed that their direct selling experience improved their skill levels for 14 business/professional skills and 13 personal life skills. Self-perceived skill levels were in turn related to perceptions of direct selling success. To the extent that current direct sellers believed that their direct selling experience improved their skill levels, they also believed that they were more successful than other direct sellers in their company.

Additionally, those direct sellers surveyed who also held a non-direct selling job believed that their direct selling experience improved their performance in this non-direct selling job. And, analogous to self-perceived direct selling success, the more direct sellers believed that their direct selling experience improved their business/professional and personal life skills, the better they perceived their non-direct selling job performance to be.

While these direct selling experience-related benefits existed across all direct sellers surveyed, certain groups of direct sellers (i.e. male direct sellers or millennial direct sellers), appeared to differ in the benefits gleaned from their direct selling experiences. As such, based on the present research, a direct selling experience can lead to personal as well as societal benefits that go beyond the economic value of direct selling per se. At a minimum, the present results suggest that an individual's perceived self-efficacy can be enhanced due to a direct selling experience. Read full paper → jdsr

DIRECT SELLING UNDER SCRUTINY: SEPARATING FACT FROM FICTION

High-level academic task force rebuts myths and misinformation about direct selling channel.

By Dr. Patrick Brockett, Dr. Anne C. Coughlan, Dr. Linda Ferrell, Dr. O.C. Ferrell, Dr. Linda Golden, Dr. Charles Ingene, Dr. Lou Pelton, and Dr. Robert A. Peterson

Abstract and Executive Summary

Direct selling (DS) is simultaneously a *business model*, a *channel of distribution*, and an *activity* engaged in by its distributors. In this paper, we provide a framework for analyzing and discuss academic research on the DS distribution model.

We focus in particular on research that develops economics-based analytic models to examine business and legal issues. This focus is motivated by the fact that analytic models are sometimes used as part of the assessment of whether a DS firm operates a legitimate DS channel or an illegal pyramid scheme. These models potentially have a significant economic impact on, and affect the outcomes of legal cases against, the affected DS firms. They may also be cited in the business press and in academic circles, influencing opinions of the viability or legality of the DS business and distribution model. It is therefore particularly important that such research be carefully grounded in sound logical and analytic bases, and that it appropriately reflect whatever key facts about the firm (or about DS in general) are relevant to the model's scope of analysis.

We first describe direct selling as an economic activity and business model. We contrast illegal pyramid schemes with legitimate DS firms and outline the key definition of an illegal pyramid scheme. This definition is distinguished from the many possible indicia of pyramid schemes that can result from pyramid scheme operation, but do not themselves prove the existence of a pyramid scheme.

We next define and discuss various logical and analytic errors that can lead to the misdiagnosis of a legitimate DS firm as an illegal pyramid scheme operator. While many such error types are possible, we focus on four that we find to be particularly important in evaluating the analytic literature on DS and pyramid schemes:

- The "***Begging the Question***" fallacy, in which the research in effect presumes the existence of a pyramid scheme through its (implicit and/or explicit) assumptions, and as an unsurprising result, concludes the existence of a pyramid scheme;
- A ***variant on the "Begging the Question"*** fallacy in which the research effectively models a pyramid scheme through its ***omission and/or misrepresentation of substantive facts*** on which the determination of legality versus illegality depends;
- The "***Fallacy of the Converse***," in which the converse of a true if-then logical statement is incorrectly asserted to be true on the grounds that the original if-then statement is true. For example, even if the statement {*if* a firm operates a pyramid scheme, *then* one can expect to see some or all of a set of resulting indicia at some point in time} is reasonably true, it is not automatically true that the converse statement {*if* one observes a set of pyramid scheme indicia at some point in time, *then* the firm must be operating a pyramid scheme} is also true; and
- A ***special case on the "Fallacy of the Converse,"*** in which the research ***ignores standard policies and protections that characterize legitimate DS firms***, and therefore starts with an inaccurate premise that these policies and protections do not exist.

All of these modeling errors are *substantive*. This means that correcting any of these errors overturns the model's

results. Such a model is thus not a reliable tool to assess whether a DS firm does, or does not, operate a pyramid scheme.

We apply this framework to the analysis of a recent working paper, "The Alchemy of a Pyramid: Transmutating Business Opportunity Into a Negative Sum Wealth Transfer" by Andrew Stivers, Douglas Smith, and Ginger Zhe Jin ("SSJ"). We find that this research *begs the question, omits and/or misrepresents substantive DS firm facts,* and *commits a fallacy of the converse by omitting consideration of standard DS firm policies* that mitigate a pyramid scheme analysis.

Specifically, SSJ "begs the question" of *whether or not* a DS firm operates an illegal pyramid scheme by *explicitly assuming* a pyramid scheme in its list of "stylized assumptions" – which duplicate the conditions for a pyramid scheme defined in the *Koscot* case. Thus, the authors cannot deliver on their research goal of answering the question "What makes an MLM firm a pyramid?", because they have already assumed the pyramid scheme outcome from the beginning.

Further, SSJ commits another "begging the question" error in *explicitly assuming that the firm in its model commits fraud by purposefully misrepresenting the business opportunity* to its prospects and distributors. Because a pyramid scheme cannot persist through time without such fraud, the authors again essentially presume a pyramid scheme outcome.

These first two critiques fully invalidate the SSJ research, whose authors state that its goal is to answer the question: "What makes an MLM firm a pyramid?" One cannot achieve this research goal by assuming a pyramid scheme as the basis for a model that then produces the inevitable result that a pyramid scheme exists.

Nevertheless, other errors further weaken the SSJ analysis. Many substantive facts about DS firms – which are important to the resolution of the model's claimed purpose – are omitted or misrepresented. Among them are:

- Its omission of any income sources to a distributor other than bonus awarded for mere recruitment without regard to sales (such as retail markup income or the economic benefit of personal consumption at wholesale prices);
- Its misrepresentation of the basis on which bonus/commission income is awarded by DS firms, by assuming they are only awarded for pure recruitment;
- Its omission of products that have market value to consumers;
- Its omission of consideration of distributor differences on substantive dimensions that matter for the research question at hand;
- Its omission of active choices by distributors concerning what to sell, how hard to work, how to price products for retail sale, how much to invest in training, whether or not to seek to recruit other distributors, or how much to personally consume;
- Its misrepresentation of the DS firm's objective as the maximization of one-period profit, with no consideration of the legal implications of the fraud it implies; and
- Its omission of consideration of standard consumer and distributor protections offered by legitimate DS firms.
- We discuss other substantive and technical problems with the SSJ model in Appendix B.

The SSJ paper concludes with a set of recommendations to control pyramid scheme threats. Because of the shortcomings we find in the model and analysis, we find that any such recommendations similarly rest on shaky foundations and are unreliable as cures for the question at hand.

We use our framework to offer an analysis of a subset of other economics-based analytic modeling papers in the DS area in Appendix A. We emphasize that our goal is not to argue that all such analyses are flawed. Indeed, economics-based analytic models are productively used in many applications and should continue to be applied to analyze firms' operations, participants' decisions, profitability, and growth. We hope that assessment of these efforts will be aided by applying guidelines for reliable and applicable scientific inquiry into various aspects of the DS distribution model. Read full paper → jdsr

CONSUMER PROTECTION AGAINST PYRAMID SCHEMES

By JDSR Staff

Concern about pyramid schemes is rightly focused on the victimization of consumers. It is also important to recognize that pyramid schemes damage legitimate businesses, which further harms consumers.

Pyramid fraud works like the classic chain letter scheme where an individual is asked to send money to the sender of a letter, and then forwards the letter to others asking for money from them. The scheme eventually collapses when the last recipient of the letter cannot find new recipients willing to send him or her their money.

So, too, with pyramid schemes, are financial transactions not based on the transfer of goods and services of commensurate value, but rather mostly or exclusively on recruiting members into the scheme. Not only do they facilitate the transfer of wealth from one person to another without the consumption of products, and ultimately collapse when no other willing recruits can be found, they create nothing of social value in the process. Worse, they can injure retail enterprises that do not operate in traditional brick-and-mortar stores by undermining consumer confidence in their legitimacy.

The retail channel most vulnerable to consumer doubts sown by pyramid frauds is direct selling. Direct selling is a decentralized form of retail selling in which companies engage a salesforce of independent contractors to sell their good and services to customers they locate, usually in person and sometimes in the customer's home.

Part of direct selling's appeal to the parent company are the lower overhead costs of the operation, bypassing, as it does, the costs of shelf space and advertising to compete with established brands, and the expense of employing a salesforce rather than contracting with independent salespeople, who decide for themselves the extent to which they are willing to be involved in the enterprise.

That flexibility is, along with the low start-up costs involved, the main appeal of the enterprise to most independent direct sellers, who are, in effect, running their own small businesses according to a business plan and schedule they designed in accordance with their financial, social and family needs. Most direct sellers work part time to supplement their families' incomes modestly.

There are direct sellers who aspire to build bigger businesses by recruiting a network of salespeople and share a percentage of their sales, what's known as multilevel marketing. Lastly, there are individuals who are involved in direct selling solely or mostly because they enjoy the product and want to purchase it at a discounted price for themselves or their family and friends.

Internal consumption is a perfectly reasonable purpose for involvement in direct selling and constitutes a legitimate sale, no different in kind than a salesperson in a brick-and-mortar store who enjoys the products she sells and uses her employee discount to purchase them.

What distinguishes pyramid schemes from legitimate retail enterprises, including direct selling, is how compensation is earned. Compensation in pyramid fraud is mostly or exclusively earned by recruiting others to the scheme. Direct selling compensates distributors for sales of a good or service to ultimate users, who can be the distributors themselves as long as they are actually using the product. Direct selling companies allow unsold inventory to be returned to the parent company for a 90% or more refund.

Internal consumption is recognized as a valid retail sale in state and federal case law, particularly F*ederal Trade Commission v. BurnLounge* (2014). It is exempted from proscribed activities in model anti-pyramid scheme laws in eighteen states, which were based on the recommendations of the Council of State Governments.

Editor's note: *Read full study by Dr. Chetan Sanghvi and his colleagues at NERA Economic Consulting: "An Economic Analysis of the Criteria Used to Distinguish Legitimate Direct Sellers from Pyramid Schemes," an insightfully relevant study for policymakers today as they seek to protect consumers and legitimate businesses from bad actors masquerading as direct sellers.* jdsr

SPECIAL FEATURES

BREAKING DOWN THE FTC'S UPDATED BUSINESS GUIDANCE CONCERNING MULTI-LEVEL MARKETING AND INCOME DISCLOSURE STATEMENTS

By Branko Jovanovic and Monica Zhong[1]

Ensuring that direct sellers' Income Disclosure Statement ("IDS") reliably and accurately reflects the actual experience of a typical distributor has long been the FTC's requirement. On April 30, 2024, the FTC published updated Business Guidance Concerning Multi-Level Marketing ("2024 Guidance")[2] that details the current principles and practices that the FTC considers in its assessment of whether an MLM is offering an unlawful compensation structure and operating as a pyramid scheme. While the FTC continues to emphasize that representations about income opportunities should reflect the earnings of a typical distributor[3] and that any income claims must be based on reliable empirical evidence,[4] the 2024 Guidance outlines a number of requirements regarding what constitutes deceptive earnings.

Following the release of the 2024 Guidance, on September 4, 2024 the FTC published a staff report titled "Multi-Level Marketing Income Disclosure Statements" ("Staff Report").[5] The Staff Report "documents an analysis of 70 publicly available income disclosure statements from a wide range of MLMs"[6] and shows that many of the reviewed income disclosure statements: "(a) present income data that does not take account of participants who made little or no income, often without clearly explaining the limitation; (b) do not account for expenses incurred by participants, often without clearly stating the limitation; (c) emphasize high dollar amounts received by a relatively small number of participants; (d) do not include information about the limited income that most participants receive, or provide this information only inconspicuously; and (e) use terms and present income data in potentially confusing or ambiguous ways."[7]

In this paper we discuss, from an economic standpoint, several ways for MLMs to adapt their income and earnings reports (which are typically in the form of IDSs) to be better aligned with the 2024 Guidance and to alleviate some of the criticism levied in the Staff Report. While these adaptations generally require direct sellers to adopt conservative measures of participants' earnings and treat the IDS as a risk management tool, we are cognizant of a potential tension between this approach and the IDS as a marketing tool meant to attract potential participants.

Defining "I" in the IDS

The Staff Report notes that "none of the reviewed income disclosure statements clearly explains what data is being

1 Branko Jovanovic is a partner and Monica Zhong is a principal consultant at Edgeworth Economics. The opinions expressed are those of the author(s) and do not necessarily reflect the views of their employer and its clients. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

2 FTC, "Business Guidance Concerning Multi-Level Marketing," April 30, 2024, available at https://www.ftc.gov/business-guidance/resources/business-guidance-concerning-multi-level-marketing.

3 *See* the 2024 Guidance, question 13: "Any earnings claim should reflect what the typical person to whom the representation is directed is likely to achieve in income, profit, or appreciation."

4 *See* the 2024 Guidance, question 13: "An MLM or participant making claims about MLM income must have a reasonable basis for the claims disseminated to current or prospective participants about the business opportunity at the time it makes the claims. A 'reasonable basis' means reliable, empirical evidence that supports the claim, not subjective beliefs or personal anecdotes."

5 FTC, "Multi-Level marketing Income Disclosure Statements," September 4, 2024, available at https://www.ftc.gov/system/files/ftc_gov/pdf/mlm-ids-report.pdf.

6 Karen Hobbs, "FTC staff report analyzes 70 MLM income disclosure statements," September 4, 2024, available at https://www.ftc.gov/business-guidance/blog/2024/09/ftc-staff-report-analyzes-70-mlm-income-disclosure-statements?utm_source=govdelivery.

7 Staff Report, p. 28.

presented to consumers. They prominently state that they are sharing information about 'income' and 'earnings,' but do not conspicuously explain what the terms mean."[8] Furthermore, the Staff Report states that "nearly every disclosure statement uses prominent headings that describe the data provided as 'income' or 'earnings' without further qualification" and that "terms such as 'earnings' can mean different things in different contexts."[9]

As recognized in the Staff Report, the IDS generally captures the amount of money the direct seller paid to participants, including commissions, bonuses, overrides, and awards.[10] While retail sales are recognized as a potentially significant source of earnings for distributors, the IDSs typically do not report retail profits because direct sellers usually do not track distributors' sales to final customers.[11] Including these retail profits in the IDS would not only improve the document's accuracy but could also potentially make the IDS more attractive to potential participants.

Capturing Participants' Costs

Perhaps the most important requirement that the 2024 Guidance repeatedly insists upon is that "claims about earnings should take into account both what participants earn and what they spend."[12] In particular, expenses, such as costs for product purchases, travel for conferences, tools or services, and training, must be subtracted from any revenue earned to determine whether the participant has made a profit or lost money.[13]

While the FTC insists that the IDS ought to account for all costs incurred by individuals pursuing the business, currently, IDSs generally do not disclose or quantify business expenses incurred by the typical distributor that reduce their net earnings.[14] These expenses fall into two broad categories: those observable in the companies' business intelligence (distributor-level) data, and those that are generally unobservable.

The observable expenses include direct expenses (fees for registration and renewal, fees for distributor websites, marketing and sales aids, etc.) and expenses associated with enrollment and rank/eligibility maintenance. Direct expenses can generally be assessed using company-wide data and/or the data on distributor-level purchases (often referred to as order-line data).[15] Some typical and recurring expenses, such as general enrollment costs and costs to attend mandatory training or conferences, can be inferred from company-wide data. However, this data usually cannot capture the disparity in costs incurred by individual participants, as some may meet different enrollment requirements. The order-line data on the other hand, can track participant-specific expenses associated with enrollment (including starter kits and any administrative fees) and eligibility maintenance (minimum purchase requirements). While these costs are relatively easy to identify in the data, their treatment is less clear because they generally provide the purchaser with some consumption value and incorporating them into the IDS could overstate distributors' expenses.

Unobservable, distributor-specific expenses can include the cost of setting up and maintaining the business, as well as the cost of travel to conventions and other events. While business intelligence and order-line data provide little information on these expenses, a well-designed and executed survey could shed some light on these costs.

Challenges Associated with Reporting Typical Earnings: Projections and Extrapolation

The 2024 Guidance explicitly states that "[t]he IDS should not misrepresent participant earnings, including by annualizing or projecting income that was not actually earned by a participant in the time period the IDS covers."[16] This requirement addresses the treatment of distributors who did not participate throughout the period covered by the IDS.

To understand this requirement, consider a simple example: A distributor joined a direct selling company in June and earned $25 in November and $75 in December for a total of $100. Annualizing this distributor's earnings

8 Staff Report, p. i and footnote 8.

9 Staff Report, p. 19.

10 Staff Report, footnote 8.

11 The Staff Report notes that "14 of the 70 income disclosure statements include a disclosure that the amounts represented do not include retail income—that is, when a participant purchases a product from the MLM at a discount and then resells it (presumably at a higher price). Most of the disclosure statements give no indication that such a revenue source has been omitted, and a few expressly state that they include retail income." Staff Report, p. 19.

12 The 2024 Guidance, question 13. The Guidance further states that for any direct sellers deciding to publish an IDS, either because they elect to do so or because they offer a "Business Opportunity," the income and earnings information these direct sellers disclose to current or prospective participants should truthfully consider both participants' income *and* typical expenses. *See* the 2024 Guidance, question 24.

13 *See* the 2024 Guidance, question 13. Note that the FTC's response to question 14 states that "[i]f an MLM or MLM participant does not have access to data showing what participants typically spend pursuing the business opportunity (e.g., product or service purchases, website fees, party costs, and training or conference expenses), they should refrain from making any earnings claims." In response to question 23, the FTC states that "[i]f an MLM does not have evidence of the typical earnings of its participants (including any costs that its typical participants incur), it should refrain from making any earnings claims and ensure its participants do the same." The Staff Report notes that "none of the 70 income disclosure statements reviewed provides income figures that take into account all expenses." Staff Report, p. 12.

14 Note that Noland Court observed that "[a]ffiliate witnesses did not carefully track (and, in some instances, did not even understand the difference between) revenues and profits." Order In Re Federal Trade Commission v. James D. Noland, Jr. et al., In the U.S. District Court for the District of Arizona, May 23, 2023, 17:26–18:1.

15 Even the observable expenses can be challenging to assess, especially in instances where the expenses are not readily identifiable. For example, the assessment of costs associated with sales aids may require a thorough review of product description and associated price and volume points.

16 The 2024 Guidance, question 24. Curiously, the Staff Report reports that "[o]ne disclosure statement has a table that lists both average monthly pay and average annual pay—but the annual pay is not 12 times the monthly pay, and the table does not explain how the MLM calculated the figure" in the section titled "Unexplained Discrepancies" (Staff Report, p. 20). But this "discrepancy" simply means that monthly earnings were not annualized, recognizing that some participants enrolled in the year covered by the IDS, and that many do not earn in every month.

(i.e., stating that this distributor would have earned $1,200), or using the distributor's average monthly earnings ($50) to impute this distributor's earnings for each month of the period covered by the IDS would likely be seen as deceptive by the FTC.[17]

Consider also a scenario where distributor A earns $50 each month for the first six months and nothing afterward, and distributor B earns $50 each month for the last six months, and nothing in the first six months. If the average monthly earnings are calculated ignoring the zero-earning months, the average monthly earnings would be $50 for each month, and the annual average earning would be $600 (the sum of the average monthly earnings). Essentially, the average monthly earnings would be extrapolated for the months where distributors A and B had no earnings, leading to a 100% overstatement of the annual average earnings.[18]

Challenges Associated with Reporting Typical Earnings: Exclusion of Certain Categories of Participants

The Staff Report states that "most of the income disclosure statements reviewed do not depict the distribution of income across all participants, but instead present a distribution that excludes certain groups of participants."[19] The exclusion of certain categories of participants when reporting typical earnings is a common practice among direct selling companies and is not necessarily a form of deception; every direct selling company has some participants who merely signed up to receive a discount on the company's products and have no interest in selling the company's products or building a business. These participants are often merely end-user consumers, who will earn little to no income from the company; including these participants in the earnings report deflates the typical earnings across all distributors.[20]

However, excluding such distributors risks allegations that the IDS artificially inflates earnings by including only those distributors who have achieved some degree of success.[21] Indeed, the 2024 Guidance explicitly states that "excluding the participants who lost money or earned no money, who failed to qualify for bonuses or commissions, or who are considered 'inactive' because they didn't get any compensation or qualify for a certain type of compensation during a particular time period, is misleading."[22]

To illustrate the effect of exclusion of certain categories of participants when reporting typical earnings, consider the following example: A distributor purchases every month, meets the minimum purchase requirement in 10 months, and earns in three months only. The FTC would likely find that the IDS that calculates this distributor's earning over either 10 months in which the minimum purchase requirement was met, or three months when this distributor earned as an active distributor (those who by definition of the compensation plan are eligible to receive earnings) is deceptive.

Characterizing Distributor Earnings

The 2024 Guidance states that if "the MLM or participant does not have a reasonable basis to know what the typical person in the group is likely to achieve in earnings, they should not make any earnings claims, including lifestyle claims."[23] In particular, the FTC states that "if they are atypical, then discussion of those atypical earnings must be accompanied, at a minimum, by a clear, prominent, and unavoidable presentation of the typical participant's revenue and expenses."[24]

Further, the FTC also explicitly states that in order to make any claim of "modest or supplemental income," the MLM needs to obtain information on the typical net earnings of participants and establish the exact definition of what "modest and supplemental income" represent to consumers.[25] In essence, this requirement seems to ask that a direct seller conducts an annual survey that would establish the participants' perception of the terms "modest" and "supplemental" income. However, given the FTC's general skepticism of survey evidence, it is unclear what type of analysis would be considered sufficient to establish the meaning of these two terms.

Measuring the Typical Distributor's Earnings

While the 2024 Guidance does not specify the correct metric for measuring the typical distributor's earnings, the Staff Report appears to endorse the use of "median

17 The FTC provided the following example: "According to the complaint, when calculating a participant's annual income, if a participant worked one year — 24 pay periods — but only earned one paycheck for $100, AdvoCare multiplied the single $100 check by 24 pay periods to calculate the participant's 'annual average income' as $2,400. The FTC alleged that AdvoCare's IDS, therefore, was deceptive in its portrayal of participant income." The 2024 Guidance, question 24.

18 The risk of misrepresenting the earnings of the distributors in the two scenarios above would likely be minimized by reporting monthly, instead of annual, earnings.

19 Staff Report, p. 10.

20 The Staff Report notes that "[t]he nature of this exclusion varies, but in at least some cases it excludes all participants who received no income as well as potentially others." Staff Report, p. 10. The Staff Report further states that "[m]ost of the income disclosure statements do not include a prominent, express explanation of the limited nature of the income distribution depicted." Staff Report, p. 12.

21 A robust preferred customer program that provides appropriate incentives for individuals to self-classify upon registration gives companies a principled and defensible way to exclude from their IDS individuals who have no desire to participate in the compensation plan.

22 The 2024 Guidance, question 24. In addition, "participants should not be omitted from earnings statistics unless the MLM has evidence that they have affirmatively opted out of the income-earning opportunity, not merely failed to qualify for it or not merely exercised any inventory buy-back program." *See* the 2024 Guidance, question 24.

23 The 2024 Guidance, question 18. The FTC repeatedly emphasizes the differentiation between typical and atypical earnings and considers it potentially deceptive if the earnings claims do not "reflect what the typical person to whom the representation is directed is likely to achieve," including the disclaimers that "results are not guaranteed" or similar statements. *See* the 2024 Guidance, questions 13 and 18.

24 The 2024 Guidance, question 18.

25 The 2024 Guidance, question 19.

reported income,"[26] the value separating the higher half from the lower half of distributors in terms of their earnings. As there may be wide variation in how much distributors earn within a rank, simply calculating the arithmetic mean tells potential distributors little about how much a typical distributor at that rank earned.[27] Therefore, applying the median may more accurately capture the typical distributor's earnings and is less sensitive to extreme values.[28]

Although the earnings and the rank of a single distributor may change dramatically within the period covered by the IDS, parsing their experience by rank and ignoring their overall experience during the relevant period may not speak to the experience of a typical distributor. The Staff Report is critical of such parsing and appears to endorse an alternative approach where the experience of distributors who may have held different ranks during the relevant period may be better captured by reporting the median earnings by the highest rank they achieved in that period.[29]

Presentation of Information Should Not Give Misleading Impressions

The Staff Report suggests that earnings metrics presented in a way that appears to highlight the experience of a small percentage of distributors who achieve high earnings and downplays the experience of a large percentage of distributors who earn relatively modest amounts, if anything at all, will be considered misleading.[30] The Staff Report noted that nearly all of the reviewed IDSs devote most of the visual space in the tables to high income earned by the very small number of participants in the higher ranks or specific percentages of participants at the top of the income scale.[31] This implies that for direct selling companies that feature a relatively high number of unique ranks, the income disclosure tables may be more susceptible to FTC allegations of emphasizing a small number of participants with high income.[32]

The Staff Report also critiques that reference and display of important income information in many reviewed IDSs are in a "less prominent or conspicuous manner."[33] While the Staff Report points to the use of "prominent unqualified headings" and "less prominent" disclaimers (in fact, the word "prominent" is used on nearly all pages of the report),[34] the report is unclear as to the exact standards the FTC uses to determine whether the display feature is more or less "prominent" in the context of IDSs. However, the Staff Report seems to suggest that actions such as listing out income information as additional rows in the income distribution table and displaying all information in "proximate, equally-prominent text" is considered as prominent disclosure.[35]

Conclusion

Given the complexity associated with preparing an IDS that would meet the FTC's requirement, direct sellers may wonder whether to publish the IDS at all. After all, the FTC states that "if an MLM is not a 'Business Opportunity,'[36] it is not required to give any information about earnings to potential participants, but any earnings information it does give must be truthful, substantiated, and non-misleading."[37] However, if direct sellers opt not to publish an IDS, their distributors cannot make any earnings claims at all—no matter how truthful. Companies must balance the reality that distributors demand and need a voice to speak about their actual experience with the business and the need to create a truthful and accurate IDS.

While IDSs are intended to be an accurate estimate of the earnings participants can generally expect by engaging with the MLM's business, we note that there is no disclosure "preferred for all consumers,"[38] and that each individual company's unique compensation structure will be reflected in its IDS. jdsr

26 Staff Report, p. 17 and footnotes 39 and 40.
27 The Staff Report correctly notes that "while an average can be a useful summary of data that has a relatively small degree of internal variation, it can be misleading when the data is largely consistent but has a small number of outliers." Staff Report, p. 16.
28 Consider, for example, a situation where nine distributors earn nothing and one distributor earns $110. The arithmetic mean in this example is $11, which overstates the earnings of all but one distributor. The median equals zero, which more accurately reflects the experience of the majority of participants.
29 Staff Report, pp. 18–19.
30 Staff Report, p. 13.
31 Staff Report, pp. 13–16.
32 By reducing the number of ranks defined for high-performing participants, direct selling companies can not only potentially alleviate the risk of this criticism, but also simplify their compensation plans.
33 Staff Report, p. 20.
34 Staff Report, pp. i, 4, 7–11, 12, 16, 19–21, 23, 29.
35 Staff Report, p. 21, footnote 22.
36 Business opportunity, as defined by the Business Opportunity Rule (https://www.ecfr.gov/current/title-16/chapter-I/subchapter-D/part-437), means a commercial arrangement in which:
(1) A seller solicits a prospective purchaser to enter into a new business; and
(2) The prospective purchaser makes a required payment; and
(3) The seller, expressly or by implication, orally or in writing, represents that the seller or one or more designated persons will:
(i) Provide locations for the use or operation of equipment, displays, vending machines, or similar devices, owned, leased, controlled, or paid for by the purchaser; or
(ii) Provide outlets, accounts, or customers, including, but not limited to, Internet outlets, accounts, or customers, for the purchaser's goods or services; or
(iii) Buy back any or all of the goods or services that the purchaser makes, produces, fabricates, grows, breeds, modifies, or provides, including but not limited to providing payment for such services as, for example, stuffing envelopes from the purchaser's home.
37 The 2024 Guidance, question 23.
38 *See* Miller, A. M., Snyder, S., Bosley, S. A., & Greenman, S. (2023). Income disclosure and consumer judgment in a multilevel marketing experiment. *Journal of Consumer Affairs,* 57(1), 92–120, at p. 95. *See also* Bosley, S. A., Greenman, S., & Snyder, S. (2020). Voluntary Disclosure and Earnings Expectations in Multi-Level Marketing. *Economic Inquiry,* 58(4), 1643–1662.

ARABIA: THE NEXT FRONTIER FOR DIRECT SELLERS

By Adolfo Franco

Experiencing the United Arab Emirates (UAE) and the World Congress of Direct Selling Associations in October 2023 has given me insights into the great potential for expansion of direct selling not only in the vibrant United Arab Emirates but Saudi Arabia and the broader Arabian Gulf Region.

The direct selling community's selection of Dubai to hold the World Congress was prescient as the region clearly represents the next frontier for direct selling and golden opportunities for those who envision its great potential. The United Arab Emirates has seen particularly phenomenal growth since the establishment of the UAE Direct Selling Association in 2013 by Poorya Montaseri whose leadership and stewardship has led the growth of our industry from virtually zero to a vibrant market with 19 direct selling member companies. Moreover, the UAE DSA has established the relationships with government officials thorough the region to embrace and encourage direct selling investments.

The entire Gulf region has a growing and young population of approximately 100 million representing diverse communities from and an annual gross domestic product growth rate of almost 4 percent. Accordingly, the regional population and its disposable income and diversity make it particularly conducive for direct sellers. Although the culture is Arabian, the welcoming and openness to immigrants makes the region among the most cosmopolitan in the world.

This mixture of cultures and communities is especially appealing to direct selling as our business model is anchored on opportunity for all and embraces diversity in every respect. Moreover, the Arabian cultural emphasis on family, personal relationships, and hospitality permeates society and makes our business model especially well suited in the region.

These attributes coupled with the personal entrepreneurial spirit of Middle Easterners serves to build personal connections and trust with customers, a quality that is highly valued in the culture. Moreover, unlike the West, traditionally the region has prized personal over conventional retail selling experiences. In that regard, direct selling naturally builds on well- established and respected traditional selling based on trust and personal connection.

In sum, the "personal touch" of direct selling is paramount in a society that places a premium on trust and customer service.

That the United Arab Emirates, Saudi Arabia, and the Gulf region have a rapidly growing consumer market with increasing purchasing power is widely recognized. Of special interest are beauty, wellness, and health products that are of exceptional quality.

Defining the unique selling proposition of direct selling and communicating the value of products and services that emphasize quality, exclusivity and benefits will unquestionably give direct sellers a distinct advantage over traditional retail in the Gulf region.

Moreover, in the advanced and sophisticated societies of the Arabian Gulf region, e-commerce platforms and social media have made it easier for direct selling companies to reach a broader audience and operate online. As in other developed markets, on-line platforms provide distributors with the tools for marketing, sales, and customer relationship management.

So, what are the next steps for our industry in the Arabian Gulf Region?

To effectively open the Arabian Gulf market to direct selling, it is crucial to employ effective strategies that align with the cultural, regulatory, and market conditions in the region described above. Among the key strategic considerations to successfully enter the Arabian Gulf market are the following:

1) Market Research and Localization:

- Conduct thorough market research to understand consumer preferences, cultural sensitivities, and local market dynamics. There are differences among the countries of the region, but the basics are similar.
- Tailor product offerings, marketing messages, and business operations to resonate with the Arabian Gulf audience.
- Consider adapting some products to meet specific cultural or religious requirements.

2) Build Trust and Relationships:

- Focus on building trust and personal relationships with potential customers and distributors.
- Leverage the importance of word-of-mouth marketing and referrals in the region to establish credibility. This is especially important in Arab culture.
- Invest in local networking, events, and community engagement initiatives to foster relationships with key stakeholders, including government in the entire region that is welcoming of foreign investment.

3) Understand Regulatory Framework:

- Although friendly to direct selling and investment, there are specific regulations and laws governing the direct selling industry in each Gulf country.
- Ensure compliance with legal requirements, obtain necessary licenses by working closely with UAE DSA to navigate the regulatory landscape. Direct selling

licensure on terms favorable to our industry has been a primary focus of the UAE DSA's work.

- Establish transparent business practices and emphasize ethical conduct to gain trust and credibility. These are critically important to success in the Middle East.

4) Local Partnerships:

- Collaborate with local distributors, influencers, and key market players who have knowledge and experience in the Arabian Gulf market.

- Identify strategic partners, including the UAE DSA, who can help you navigate cultural nuances and facilitate local market penetration.

- Leverage local partner networks and expertise to expand reach and enhance market access. In an entrepreneurial society, these are easier to accomplish than in most other regions of the world.

5) Embrace Digital Marketing:

- Leverage the power of digital marketing and e-commerce platforms to reach a wider audience in the region.

- Invest in localized digital marketing strategies incorporating social media, search engine optimization (SEO), and online advertising.

- Create localized content, engage with customers through social media platforms, and utilize digital tools for customer relationship management.

6) Training and Support:

- As in other markets, provide comprehensive training and ongoing support to distributors to ensure success and retention.

- Offer localized training programs that address cultural nuances, sales techniques, and product knowledge.

- Empower distributors to become brand ambassadors and provide exceptional customer service. Exceptional customer service cannot be overemphasized in the Gulf Region.

7) Differentiation and Value Proposition:

- Clearly define the unique selling proposition and communicate the value of products or services in the Arabian Gulf market context.

- Emphasize the quality, exclusivity, and benefits of offerings to stand out in a competitive market.

- Provide personalized and tailored solutions that cater to the specific needs and preferences of Arabian Gulf consumers.

As with other emerging, and new markets the above require time, effort, and cultural sensitivity. However, unlike other markets, the level of sophistication and support of the UAE DSA and its broad governmental contacts and expertise, make these tasks much easier to accomplish.

Aligning with the Arabian Gulf market's cultural values and preferences are key to successfully introducing direct selling in the next frontier for directing selling: the Middle East. jdsr

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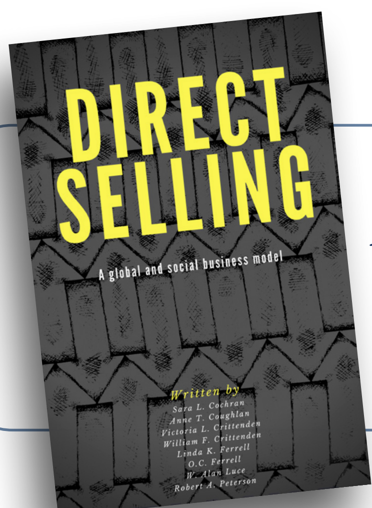

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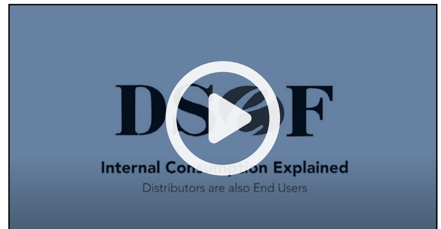

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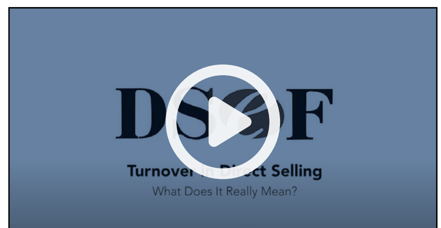

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